Registered number: 10627575

Zopa Bank Limited

Annual Report and Financial Statements

for the year ended 31 December 2020

Zopa Bank Limited

Zopa Bank Limited

Directors and professional advisers

Directors
Jaidev Janardana
Paul Cutter
Richard Goulding
Peter Herbert (Chair of Board)
Gaenor Bagley
Jonathan Hogan

Secretary
Victoria Matthews

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Registered number
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Zopa Bank Limited

Strategic report

Why are we here – Zopa's purpose

Zopa Bank Limited (the Company, the entity referred to as 'we' or 'us' for the purposes of this Strategic report) is a neobank on a mission to become the best place for UK customers' money.

This means delivering better value products, in a way that makes them simple to use and understand for consumers. We focus in areas where we can make the most positive difference to our customers. These are areas that play a key part in customers' financial wellbeing and/or where we believe the customer offering can be most significantly improved. Our approach is grounded in consumer insight so that we deliver products that challenge category norms and perform better for customers.

Principal activities

The principal activity of Zopa Bank Limited ("the Company" or "the Bank") during the year was the acquisition of lending and savings customers of scale following the successful completion of the lifting of restrictions on its Bank licence and full launch of the Bank. This enables Zopa Group (Zopa Group Limited and its subsidiaries Zopa Bank Limited and Zopa Limited) to extend their commitment to giving customers access to simple, fair financial products that are easy to manage and offer customers more choice.

Review of 2020

2020 was a monumental year for us. During a global pandemic, Brexit uncertainty and a recession, we obtained parental funding exceeding £138 million, following on from the completion of £140 million investment into Zopa Group Limited (the "Parent") by IAG Silverstripe ("Silverstripe"). We then completed the launch of the Bank.

Key milestones in 2020 for the Company were as follows:

- On 15th June 2020 following the receipt of capital from the Parent, the Company acquired a set of intangible technology assets from Zopa Limited which facilitate the acquisition and origination of Unsecured Personal Loans. Subsequent to the acquisition and transfer of staff the Company became the originator of all Unsecured Personal Loans for the Group, booking loans on its own balance sheet, as well as originating and equitably assigning loans to Zopa Limited's peer to peer investors. Following this transfer the Company also commenced the provision of outsourcing services to Zopa Limited.
- On 23rd June 2020 the Company's application for Variation of Permission on its banking licence to remove restrictions on deposit taking was approved by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA). This removed the £50,000 maximum limit of deposits previously in place – more commonly known as 'lifting restrictions' on the licence.
- In August 2020 we publicly launched our online fixed term savings product, acquiring customers and balances through the Zopa website and other online channels. By the end of 2020 the total fixed terms savings balance had grown to over £177 million.
- In October 2020 we publicly launched our innovative credit card product, providing unique features in the marketplace, acquiring customers through the Zopa website and other online channels and providing market leading servicing through our mobile app. By the end of 2020 over 27,000 customers had opened a new credit card account with us.
- In November 2020 we completed the acquisition of a loan portfolio from a lender on the Zopa peer to peer platform for a total of £67.2m. This supplemented new loan originations and contributed to the year end gross balance of loans and advances to customers of £238.1m

Throughout 2020 we continued to innovate and develop our secured auto lending with particular focus on its direct to consumer proposition which was especially relevant due to the impact of Coronavirus lockdowns on car dealers.

Over the course of 2020 the Company's staff numbers increased from 260 to 408 including the transfer of staff from Zopa Limited. Throughout 2020, we continued to make significant investment in our product development and technology, customer service, risk management and compliance. Average headcount during 2020 was 317.

Zopa Bank Limited

Strategic report (continued)

The development of the Coronavirus pandemic from Q1 2020 onwards affected the Company in a variety of ways. Overall though the pandemic enabled us to differentiate further compared to other players in the market and we successfully navigated the challenges posed. Our agility and technology capabilities allowed rapid response and amendment of lending criteria as the pandemic and economic outlooks developed. Key impacts included:

- We 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.
- We continually reviewed underwriting policies and credit decisions and adapted quickly to tighten lending criteria based on the development of the pandemic. Our online acquisition and fulfilment processes meant that lending decisions and paying out of loans suffered no interruptions. The impacts of Covid on customer demand and the tightening of the underwriting criteria, meant that the Company's lending volumes were below what would otherwise have been achieved in 2020.
- Over the course of 2020 we developed our online servicing capabilities through the website and especially our mobile app. This enabled customers to go get the best possible service and drove a significant increase in customers using the app.
- From the development of the pandemic in March 2020 to the end of the year we helped customers facing financial difficulties. We focused on assessing customers' individual situations and doing our best to find a solution which works for them. During 2020 this encompassed a range of options including reduced payment plans and periods where payments were suspended. We have a specialist in-house team to support these customers and also work closely with consumer debt charities to ensure that customers have good, impartial advice and support.

Key Performance Indicators ("KPIs")

The overall progress of the Company against its strategy and targets is monitored at Board meetings. Additionally, the Board and Board Committees exercised oversight of risks.

Performance during the year, together with prior year comparatives, is summarised in the table below:

£000	Year ended 31 December 2020	Year ended 31 December 2019	Comments
Net Interest Income	6,618	467	The increase from prior year is due to the full launch of the Bank and the increase in customer loan balances offset by growth in interest expense from savings balances.
Other Income	16,114	12,491	The increase from prior year is due to higher revenue from services provided to an associated company, Zopa Limited. In particular following the transfer of staff, customer acquisition and servicing activities from Zopa Limited, the Company commenced acquiring and servicing all Unsecured Personal Loans for the Group.

Zopa Bank Limited

Strategic report (continued)

£000	Year ended 31 December 2020	Year ended 31 December 2019	Comments
Revenue (being the aggregate value of Interest Income, Fee and Commission Income and Other Income)	23,494	13,131	The increase from prior year is due to the increase in both interest income and other income as discussed above.
Administrative Expenses	(38,567)	(30,798)	Administrative expenses include costs of running the business such as staff costs, IT costs, marketing expenses, premises, depreciation, and amortisation. The increase from prior year is due to increased activity as the Company grew. Efficiency savings made to manage the impacts of COVID-19 were exceeded by the additional costs of acquiring and servicing activities provided to Zopa Limited after June 2020.
Impairment losses on loans and advances to customers	(12,788)	(162)	Charge recognised under IFRS9 through profit and loss in relation to expected credit losses on loans to customers. The increase is primarily due to the growth in loan balances post the launch of the Bank, combined with the impacts of COVID-19 on IFRS9 impairment levels.

£000	As at 31 December 2020	As at 31 December 2019	Comments
Total Customers	57,955	141	The increase from prior year is due to the full launch of the Bank leading to an increase in customers across all products.
Total Equity	127,622	19,638	Total Equity is comprised of share capital, reserves, and accumulated losses. The £138m injection of capital in the year significantly exceeded the loss for the year.

Financial Performance

By the end of 2020 the Company had grown its ending gross loan balances to £238.1m, generating net interest margin of £6.6 million and building impairment provisions to £12.9m on the balance sheet. The total loss for the year of £30.5 million reflected the completion of build out of the Bank and the impacts of IFRS9 accounting standard on profitability for a rapidly growing lending business since impairment provisions are initially booked at the point that loans are originated whereas revenues are generated over the life of the loan.

The Company received capital injections of £138.2m in 2020, from the Parent funded by the injection of £140m into the Parent by Silverstripe. The injections of capital enabled us to meet the required levels of regulatory capital to enable the restrictions on the banking licence to be lifted, providing significant capital resources enabling the Company to grow its balance sheet lending. We ended 2020 in an extremely strong Net Assets position with £127.6 million of Total Equity.

Plans for the future

Our key priorities for 2021 will be the continued growth of our lending and savings products to support our mission to become the best place for UK customers' money and to build a profitable and sustainable neobank. This will mean continuing to deliver great value products, in a way that is simple to use and understand for customers.

Following the successes of 2020 we will continue our focus on offering exceptional levels of customer service with investment in technology and infrastructure continuing in 2021, with a continued focus on process automation to ensure further improvements to the experience for customers.
2021 product developments will include the launch of an Easy Access savings product to enable more customers to benefit from Zopa's great service and to help customers to save for the unexpected. We expect further customer and balance sheet growth in 2021 and that this will deliver a strong path towards profitability. To help achieve this goal we will make further investments in the Zopa brand.

Section 172 Disclosure

The Company complies with Section 172 of the Companies Act. Throughout 2020, the Board continue to review and challenge how the Company should continue to improve engagement with shareholders, employees and other stakeholders. Further details on how Directors have complied with CA2006 S.172(1) are included in the Corporate Governance section (on pages 11-15), which sets out how the Board and management work to ensure feedback from a broad range of stakeholders is considered, whilst keeping the business model current and sustainable.

Business environment

The Company continues to monitor consumer credit conditions, including the development of the Covid-19 pandemic. As a result of default conditions appearing to worsen following the historic lows seen over the last decade, the Company tightened its acceptance criteria in 2020. This reflects the Company's commitment to prudent risk management.

Principal risks and uncertainties

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.

The risk management approach under the RMF comprises six key components:

- **Risk Appetite:** The Company's Risk Appetite defines and quantifies the risks that the company is exposed to and sets out what level of each risk it is willing to take given its business strategy.
- **Risk Management Model:** The Company a operates a risk management model comprising mechanisms and processes to identify, measure, monitor, report and mitigate risks.
- **Three Lines of Defence:** The Company operates three lines of defence. In the first line, business areas are responsible for implementing policies and procedures to manage risk; in the second line, the Company's risk management and compliance functions monitor performance of the first line; a third line of internal audit acts as a check on the first two lines of defence.

- **Governance:** Authorities and responsibilities for risk management are clearly allocated to the Board, its committees and individuals at Management level. The Board retains responsibility for exercising oversight of risk management and internal control systems, and for the identification, measurement, management and control of risks of regulatory concern involving the Company.

Zopa Bank Limited

Strategic report (continued)

- **Culture and People:** The Company's culture helps to ensure that a healthy and efficient risk environment is implemented from the bottom up. The Company performs regular assessment of Culture through staff survey, monitoring of whistleblowing and monitoring at the Nomination & Remuneration Committee.
- **Policies and Procedures:** Policies and procedures are in place to ensure the Company's front-line activities are conducted within the bounds set by the Risk Appetite statement.

Principal Risks

Zopa categorises the risks it faces into six major risk types – Credit, Capital, Liquidity, Market and interest Rate, Operational and Strategic:

Risk Type	Main mitigating actions
Credit The risk that the Company's borrowers or other counterparties default on their loans or obligations.	• Operate in selected sectors and products, where we have expertise. • Consistently apply the approved credit policy, and price credit facilities for risk. • Obtain physical or financial collateral where appropriate. • Undertake robust in-life management of the credit portfolio, including careful management of customers in collections. • Perform regular monitoring and reporting of credit performance against risk appetite, with swift escalation if internal triggers or limits are breached.
Capital The risk that the Company has insufficient capital to support its business strategy.	• Perform a comprehensive periodic Internal Capital Adequacy Assessment Process (ICAAP) that includes all material capital risks along with combined stress tests. • Maintain a capital buffer above minimum regulatory requirements. • Perform regular monitoring and reporting of capital adequacy against risk appetite, with swift escalation if internal triggers or limits are breached. • Plan to meet capital requirements on a forward-looking basis, formally assessing confirmed and potential changes in regulatory rules. • Obtain additional capital to support the growth of the Company's balance sheet.
Liquidity The risk that the Company is unable to meet its obligations as they fall due.	• Perform a comprehensive periodic Internal Liquidity Adequacy Assessment Process (ILAAP) that includes all material liquidity risks along with combined stress tests. • Maintain a liquidity buffer above minimum regulatory requirements. • Conduct active day-to-day Treasury management of liquidity resources, according to agreed internal liquidity policies. • Perform regular monitoring and reporting of liquidity adequacy against risk appetite, with swift escalation if internal triggers or limits are breached. • Plan to meet liquidity requirements on a forward-looking basis, formally assessing confirmed and potential changes in regulatory rules.

Zopa Bank Limited

Strategic report (continued)

Risk Type	Main mitigating actions
Market and interest rate risk The risk that Zopa 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	• Take market and interest rate risk only in support of the company's primary business activities, not in pursuit of profit. • Perform hedging activity to reduce Market (including FX) and Interest rate risk in the banking book (IRRBB) exposure. • Regularly quantify Market Risk and IRRBB and monitor them against risk appetite limits.
Operational The risk that the Company suffers losses stemming from inadequate or failed internal processes, key suppliers, people 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).	• Identify and allocate owners to all material business processes, and conduct risk assessments on these. • Set, and implement controls to monitor and ensure compliance with, policies designed to mitigate operational risks. • Perform regular monitoring of controls performance and risk events against risk appetite and escalate swiftly if internal triggers or limits are breached. • Perform periodic deep-dive testing of operational risk management in individual process areas. • Conduct regular business continuity, disaster recovery, and cyber security vulnerability testing. • Conduct regular compliance testing and monitoring of customer outcomes. • Undertake regular monitoring of regulatory requirements. • Development and monitoring of the operational resilience framework and controls • Undertakes new supplier due diligence and maintains on going supplier management, with significant focus on material suppliers
Strategic The risk of opportunity cost from the failure to optimise the earnings potential of the Zopa franchise.	• Maintain a Board and Executive Committee composed of skilled and experienced individuals. • Conduct periodic strategic planning exercises and hold regular Board and Executive Committee strategy discussions to consider strategic alternatives and priorities.

Zopa Bank Limited

Strategic report (continued)

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.

On behalf of the Board,

DocuSigned by:
Jaidev Janardana
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Jaidev Janardana
Director
28 May 2021

Zopa Bank Limited

Corporate Governance

The following section outlines how the Directors have complied with s. 172(1)(a) - (f) of the Companies Act 2006 when performing their duty to promote the success of the Company.

Board Role

The Board is responsible for ensuring that the Company delivers against its financial and business objectives as set out in its Business Plan, having regard to the risk appetite and interest of all stakeholders. The Board is also responsible for the oversight and control of the management of risk in the Company and for setting risk appetite, culture, values and standards. The Board ensures that the Company and the Board itself complies with its Articles of Association and all relevant legal, regulatory and governance requirements.

The Board directs the Company by setting its strategy and risk framework, whilst ensuring that the Company's culture, values and behaviours meet or exceed the standards required of a leading, regulated bank.

Board Committees

The Board is supported by three committees which operate under the delegated authority of the Board: Audit Committee (BAC); Risk Committee (BRC); and Nomination and Remuneration Committee (NRC). The terms of reference are reviewed formally on an annual basis to reflect any changes in regulation or best practice. The committees work within their remit to support and advise the Board to facilitate the execution of the corporate vision, goals, strategy and culture. The key objectives and membership of each subcommittee are set out below:

Committee	Members	Key Objectives
Board Risk Committee	Richard Goulding (*Chair*) Peter Herbert Gaenor Bagley Jonathan Hogan Paul Cutter	The Board Risk Committee (BRC) assists the Board in maintaining risk management and internal control systems, and for the identification, measurement, management and control of risks of regulatory concern involving the Company. The BRC makes recommendations to the Board on the Company's overall risk appetite and risk tolerance; and assists the Board in designing, implementing and monitoring the effectiveness of risk management, in addition to continual risk monitoring and stress testing. The BRC ensures that relevant policies and procedures are in place relating to risk management governance, practices and infrastructure.
Board Audit Committee	Gaenor Bagley (*Chair*) Richard Goulding Jonathan Hogan	The Board Audit Committee (BAC) is responsible for reviewing and providing assurance to the Board on matters including the integrity of the annual financial statements, the control environment and the adequacy of the Company's Internal Audit function. The Committee keeps under review the adequacy of arrangements for whistleblowing, internal fraud detection and oversight of the external audit process.
Nomination & Remuneration Committee	Gaenor Bagley (*Chair*) Peter Herbert Richard Goulding	The Nomination and Remuneration Committee (NRC) is responsible for assisting the Board in ensuring that it retains an appropriate workforce structure, size and balance of skills to support the strategic objectives and values of the firm. The NRC assists the Board in meeting its responsibilities regarding the determination, implementation and oversight of remuneration and talent management policies of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace. The NRC supports the Board to ensure that the Company's performance management and remuneration policies have regard to the development of the Company's culture and risk appetite.

Zopa Bank Limited

Corporate Governance (continued)

During the year, the Board met 14 times to review performance, strategy, risk and governance. Formal summaries of each committee meeting are presented at each Board meeting, including decisions made at committee level and outlining the recommendations being made to the Board. The committee summaries and updates facilitate decision making and oversight by the Board.

Throughout 2020, the Board held regular meetings where the impact of COVID-19 on all stakeholders was reviewed to ensure that the Company could support its staff and customers, whilst continuing to build a sustainable business. The Board took key actions where necessary to mitigate the impact of the pandemic on the Company's operations.

Additional topics reviewed by the Board and its committees in 2020 include: -

Board	Audit Committee	Risk Committee	Nomination and Remuneration Committee
Receipt of the banking licence and the formal launch of the Bank Approval of the Fixed Term Savings product Approval of the launch of the Credit Card product. Review and approval of the 2021 strategy Approval of the mobile app strategy Approval of the revised budget	Oversight of the external audit and the 2019 annual report and financial statements Review and scrutiny of the 2019 Annual Whistleblowing report and the employee survey Approval of the external Auditor Independence policy and review of the independence of Internal Audit Approval of the Internal Audit Plan Scrutiny of the outcome of internal audits	Approval of the compliance and operational risk testing plan Assurance required prior to Bank launch Review of the impact, response and monitoring of COVID-19 Scrutiny of the risks and controls associated with the launch of new products	Review of the Company Share Option Scheme Approval of the management incentive plan Conduct the annual fitness and propriety assessments and compliance with the Senior Managers Regime Review of the approach to organisational design, talent assessment and succession planning Approval of remuneration for Senior Managers, Certified Persons and Material Risk Takers Review of recruitment of Senior Managers and other changes to SMF function holders

The Board and its committees receive reports and recommendations from the Executive management team, who are responsible for executing the Company strategy and delivering financial and business performance.

The Executive management team make decisions and recommendations to the Board, as appropriate, via the Executive Committee (EXCO); Risk Management Committee (RMC); and Assets and Liabilities Committee (ALCO).

All executive committees share key decisions with the EXCO or a Board Committee. The EXCO reports to the Board.

Zopa Bank Limited

Corporate Governance (continued)

Board Training and Induction

New Board members are offered comprehensive induction training and meet with relevant members of staff to support the transition into their new role. Additionally, the Board reviews and approves the board training programme on an annual basis, taking into account the strategy and any collective and individual development needs. In addition to training the Board undertakes deep dives into key areas of regulatory and banking focus.

The Company Secretarial team ensures that the annual training plan also includes any updates on developments in corporate governance or Directors' duties and responsibilities.

Evaluation

The Board has commissioned an external Board evaluation which is scheduled for completion by the end of Q2 2021 in order to review and reflect on its effectiveness and that of its Committees. Findings and observations from the evaluation will be addressed by the Board and Committee Chairs.

Conflicts of Interest

The Chair ensures that any conflicts of interest are declared, recorded in the Conflicts Register and managed in accordance with legal requirements. Zopa Group's subsidiary governance framework has been developed to ensure that conflicts of interest between the different entities are minimised and managed appropriately.

Employee Engagement and Culture

The Board is responsible for setting the Company's values and standards and ensuring that the Company is managed with integrity. As part of this responsibility the Board monitors the diversity of the Company's workforce. The Board monitors that the Company's culture and values have been inculcated into the business through regular updates from the NRC; the monitoring of whistleblowing via the BAC; and the review of dedicated conduct risk MI which is regularly presented to the Board and senior management at BRC meetings.

The Company's long-term success is centred on the commitment of its employees to its purpose, and the demonstration of the Company's values on a daily basis. The Company aims to ensure that employees are well informed on the Company's strategy and decisions that impact them. This is achieved through regular company meetings, written communications and townhalls.

Employee engagement is one of the Company's key objectives and the Company carries out an employee opinion survey twice a year. Team engagement scores make up part of managers' assessments. The employee opinion survey results provide the opportunity for the Board and Executive management team to gain a perspective of employees' view of strategy, leadership, culture and values. Management assesses the results of the surveys and takes appropriate actions. This year we tailored one of our surveys in order to gain a view on the impact of COVID-19 on colleagues and the way they were adjusting to the working from home environment in order to provide the best support in these unprecedented times.

To support engagement through 2020 we refreshed our approach to communication and management in order to ensure colleagues remain engaged with the Company during the COVID-19 pandemic and the associated requirements to work from home. We have continued to implement learning and development improvements as well as ongoing improvements in workplace technology.

In order to align the interests of employees and the Company, the Company's compensation structure is tied to the Company's risk-adjusted performance, ensuring that the progress of the Company is shared with employees. Many staff members also participate in Group share ownership plans, with equity interests vesting over a period of time.

Shareholder Engagement

Zopa Group Limited is the sole shareholder of the Company. The Board Chair and the Board Risk Committee Chair are members of the Zopa Group Board. Additionally, the CEO of Zopa Group and of the Company is a member of the Zopa Group Board. Common membership across the two boards ensures consistency in strategic direction and management approach. It also provides the shareholders with a view of business activity and key decision making and presents the opportunity for additional challenge.

As a subsidiary of Zopa Group, the Zopa Bank Board has a standing agenda item to escalate matters to the Group board as required. The Group board also receives financial and performance data for the Group at its regular meetings.

At the Group level, the Group's material investors have representation on the Group board and these directors receive board materials and attend board meetings. Material investors also receive quarterly management information including some financial performance data for the group. All shareholders receive quarterly updates detailing key milestones or developments and a trading update for the group.

Our Regulators

Our Executive management team is in regular contact with our regulators, the PRA and FCA. This communication was on a regular basis during 2020 due to the mobilisation of the Bank.

The Company adheres to regulatory guidance to ensure that the business operates to the highest standards, for the benefit of our customers and other stakeholders.

Customers

The Company aims to be the best place for money by offering innovative products that are clear and easy to understand, and by supporting those products with high quality customer service. Throughout 2020, the Company ensured that the key enablers were in place for the launch of the bank, including the creation of a business model that aligns with the best interests of our customers and is underpinned by a world class technology platform.

Zopa Bank Limited

Corporate Governance (continued)

Climate change

The Company does not operate within an industry that promotes a heavy carbon footprint, and as a branchless Bank our environmental impact is comparatively low. Since the start of the COVID-19 pandemic, a majority of staff were able to work from home during 2020, which further limited the Company's carbon footprint. When staff are working from the office, recycling is widely encouraged and we encourage colleagues to take environmentally conscious decisions where possible.

The Board is made aware of relevant developments in environmental legislation and ensures that the financial risks from climate change are embedded into the management of risk across the Company.

In accordance with the environment reporting guidelines, including streamlined energy and carbon reporting guidance issued on March 2019, the Company has taken the exemption of reporting on energy and carbon reporting. The immediate parent company, Zopa Group Limited, provides the appropriate disclosure at group level, which includes the results of the Company.

Industry Bodies

During 2019 the Company joined UK Finance and the Finance and Leasing Association (FLA). The Company participates regularly in the working groups and committees. The Company also provided input during the year into some of UK Finance's responses to various government and FCA consultations.

Suppliers and Outsourcing

The Company has a well-established procurement process that ensures we select appropriate suppliers who will help us maintain our high standards of service. We also have a well-established supplier management process so that suppliers are managed to minimise any risk they could pose to the Company and to ensure good customer outcomes.

Key outsourcing decisions are made by the Board and the ongoing monitoring of key suppliers is carried out by the RMC, the BRC and the Board.

We have procedures in place to risk assess our supplier base and carry out advanced due diligence on suppliers we identified as providing products or services within a high-risk sector or from high-risk country. This due diligence looks at the steps suppliers are taking to prevent modern slavery and trafficking in their operations and supply chain.

Zopa Bank Limited

Directors' report for the year ended 31 December 2020

The Directors present their annual report and audited financial statements of the Company for the year ended 31 December 2020. The financial performance and future plans for the Company are included in the relevant sections of the Strategic report.

The Directors do not recommend the payment of a dividend in the current year.

Directors

The Directors who held office during the year and up to the date of the approval of these financial statements, unless otherwise noted, are listed below:

Jaidev Janardana
Paul Cutter
Richard Goulding
Peter Herbert (Chair)
Gaenor Bagley
Jonathan Hogan
Stephen Hulme (appointed 30 March 2021)

Going concern

The financial statements have been prepared on a going concern basis, as the Directors are satisfied that the Company will have the resources to continue business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources. The Company's capital and liquidity plans, including alternative scenarios, have been reviewed by the Directors. When preparing the forecasts, the Company has reflected the economic repercussions of the coronavirus, including the risk of worse than expected credit performance and lower demand for borrowing, thus contributing to lower growth.

The Company received a capital injection of £135m from its Parent on 11th June 2020 following completion of the investment of £140m by IAG Silverstripe into Zopa Group Limited. This capital injection was in addition to £3m in early 2020 and was the final step to enable the lifting of restrictions on the banking licence enabling the Company to commence raising of customer deposits and lending at greater scale. A further £17m injection was received in March 2021 following the completion of an additional fundraise of £20m from parent investors IAG Silverstripe.

The base case forecast assumes that the Company will receive a further capital injection from its Parent between Q4 2021 and Q2 2022 to enable continued asset growth and to cover the impact of IFRS9 impairment provisions on a growing loan portfolio. The Board also evaluated alternative scenarios, including the impact of Zopa Group Limited injecting capital at a later point or the capital raises being delayed for other reasons. In this event, the Company would execute a series of actions to manage its regulatory capital position by reducing new lending volumes. These actions would ensure that the Company continued to meet its regulatory capital and liquidity requirements as set out by the PRA without a further injection of capital in 2021 or 2022.

Employee involvement

Employee engagement is one of the Company's key objectives and is measured biannually. Team engagement scores make up part of managers' assessments. To support engagement this year we have focused on scaling our communication in line with the business growth, and we have also implemented learning and development improvements as well as ongoing improvements in workplace technology.

Donations

The Company made no political donations in 2020 (2019: nil).

Zopa Bank Limited

Directors' report for the year ended 31 December 2020 (continued)

Disabled employees

At Zopa we believe in creating an inclusive working environment for everyone. Our job adverts clearly state that we do not discriminate on the basis of disability (or on any other grounds). Additionally, applicants are asked prior to the interview stage if we need to make any special adjustments for them to take part in the process to ensure their needs are met. The Company employs people with disclosed disabilities and is able to make suitable adjustments to create an inclusive and safe working space for them. In addition, our offices are fully wheelchair accessible.

Management of financial risk

The Company's management of financial risk is detailed in note 24 to the financial statements.

Statement of Directors responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the Accounting Standards Board (IASB) in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

Directors' confirmations

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Independent auditors

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

The financial statements on pages 27 to 64 were approved by the Board of Directors on 18 May 2021 and signed on its behalf by:

DocuSigned by:
Jaidev Janardana
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Jaidev Janardana
Director
28 May 2021

pwc

Independent auditors' report to the members of Zopa Bank Limited

Report on the audit of the financial statements

Opinion

In our opinion, Zopa Bank Limited's (the "company") financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2020; the income statement, the statement of changes in equity and the statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Board Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 10 to the financial statements, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

- As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment and other qualitative factors.

Key audit matters

- Determination of allowance for expected credit losses on loans and advances - Unsecured Personal Loans
- Effect of Covid-19 on the audit and the financial statements

- The complete and accurate recording of customer deposits and unsecured personal loans

Independent auditors' report to the members of Zopa Bank Limited (continued)

Materiality

- Overall materiality: £1,040,000 (2019: £304,700) based on 5% of the average of the last three years (including FY20) reported loss before tax.
- Performance materiality: £780,000.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the relevant rules of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue and management bias in accounting estimates and judgements. Audit procedures performed by the engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the entity's whistleblowing helpline and the results of management's investigation of such matters;
- Reading correspondence with the FCA and the PRA;
- Reading minutes of the board and audit committee to identify any matters of audit relevance;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the valuation of loans and advances - Unsecured Personal Loans (see related key audit matter below); and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Determination of allowance for expected credit losses on loans and advances - Unsecured Personal Loans and the complete and accurate recording of customer deposits and unsecured personal loans are new key audit matters this year. Valuation of intangible assets, which was a key audit matter last year, is no longer included because of the reduced level of audit risk and associated audit effort in this area. Otherwise, the key audit matters below are consistent with last year.

Independent auditors' report to the members of Zopa Bank Limited (continued)

Key audit matter	How our audit addressed the key audit matter
Determination of allowance for expected credit losses on loans and advances - Unsecured Personal Loans As at 31 December 2020 the gross carrying value of Unsecured Personal Loans was £211.2m and the associated allowance for expected credit losses was £10.7m. The company has grown its unsecured personal loan portfolio since the launch of its retail banking services in July 2020. Due to the size of the balance and the uncertain economic environment as a consequence of Covid-19 (increased unemployment, approved payments holidays), there is an increased risk that the unsecured personal loans may not be recoverable and not carried at the appropriate value on the balance sheet. The determination of the allowance for expected credit losses (ECL) is subjective and judgemental. Models are used to collectively assess and determine the allowance for expected credit losses on unsecured personal loans. The key inputs and assumptions into these models include significant increase in credit risk criteria, probability of default, loss given default and the use of multiple, probability weighted, economic scenarios. We have focused our work on the areas that we consider to be most judgemental, being: • Appropriateness of the modelling methodologies and assumptions in determining the probability of default, particularly given the continuing disruption caused by Covid-19; • The selection of forward-looking economic assumptions used in the models, including management's assumptions to address economic uncertainty, heightened by Covid-19; and • The judgements involved in addressing underlying economic uncertainty through the use of post model overlays and the application of these adjustments. Reference to Note 13 'Loans and advances to customers' and Note 24 (a) 'Financial Risk Management - credit risk' in the financial statements.	We understood and evaluated the design and implementation of controls relating to the determination of the allowance for expected credit losses (ECL) on Unsecured Personal Loans. We tested key controls around the determination of ECL, including controls relating to: • review of the completeness and accuracy of the output from the ECL model by the Chief Credit Officer; • review and approval of the ECL allowance (including post model adjustments) at the Monthly Finance meeting; and • review and approval of post model adjustments at the Monthly Finance meeting, by the Chief Financial officer and presented at the Board Audit Committee for approval. We found these key controls were designed and implemented effectively, and therefore determined that we could place reliance on these key controls for the purposes of our audit. In addition, together with our credit risk modeling specialists, we performed the following substantive procedures: • We understood and critically assessed the appropriateness of the impairment policy (including management's definitions of default and a significant increase in credit risk) including how management considered the impact of COVID-19 in its determination of ECL; • We critically assessed the conceptual soundness of the methodology applied in the impairment model, to evaluate whether the methodology was compliant with IFRS 9 requirements, and tested the key assumptions and judgements, including, but not limited to, those made by management in determining Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) used in the calculation of the ECL allowance; • We have assessed the reasonableness of the loss given default assumptions and the probability of default curves used by management.; • Reviewed the code within the Unsecured Personal Loan ECL model by translating the key blocks of code and reconciling this to the company's methodology; • Assessed the reliability and reasonableness of historic macroeconomic and forward-looking information (obtained from management's expert) used in the ECL model to determine the economic scenarios; • Assessed the reasonableness of scenario weightings and internal ratings; and • Assessed the completeness and accuracy of management overlays, including obtaining a detailed understanding of the overlay rationale and quantification methodology applied by management. We also assessed the disclosures in Note 3, regarding the critical estimates and judgements involved in determining ECL and found them to be appropriate. Based on the evidence obtained, we concluded that the methodologies, modelled assumptions and management judgements in determining the ECL allowance for unsecured personal loans to be appropriate and compliant with the requirements of IFRS 9.

Independent auditors' report to the members of Zopa Bank Limited (continued)

Key audit matter	How our audit addressed the key audit matter
Effect of Covid-19 on the audit and the financial statements The impact of the Covid-19 pandemic has resulted in unprecedented economic conditions and resulting government support programmes and regulatory interventions to support businesses and people. The Covid-19 pandemic has also changed the way that companies operate their businesses, with one of the most substantial impacts being the transition to remote working. The majority of the company's employees have been working remotely during 2020, with some consequential changes on their processes and the control environment, some of which were relevant for financial reporting purposes. Our audit team has also been working remotely for most of 2020. The impact of the Covid-19 pandemic and resulting uncertainty has impacted a number of the estimates in the company's financial statements. The impact on the most significant accounting judgement and our audit is set out in the Determination of the allowance for expected credit losses - unsecured personal loans Key Audit Matter. In addition and as described in Note 1 (c) - Significant Accounting Policies, the Directors considered the impact of the pandemic on the company's ability to continue as a going concern. Given the financial performance during the year and the strong capital and liquidity position, the Directors have concluded that there is no material uncertainty and the company will continue as a going concern for a period of at least twelve months from the date of the Directors report.	We critically assessed the areas in which Covid-19 had a significant impact on our audit. In particular: • As part of our planning, we assessed the impact of the disruption caused by Covid-19 on the risk of material misstatement. We concluded that no significant changes to our plan were required during the audit; • We evaluated the controls in place during the year which were relevant to our audit by undertaking walkthroughs of key processes and testing the operating effectiveness of relevant controls that we planned to rely on; • We reviewed management reporting and internal audit reports, and discussed the impact of the pandemic with senior management, which included understanding the impact of the transition of employees to working remotely on the control environment relevant to financial reporting; and • We considered the impact on estimates included in the financial statements, in particular in relation to the allowance for Expected Credit Losses. We did not identify any material impact on the estimates as at 31 December 2020. We also made enquiries of management to understand the effect of Covid-19 on the company's financial performance, business operations and regulatory capital and liquidity ratios. As a result of these procedures, we concluded that the impact of Covid-19 as it relates to the going concern assumption has been appropriately evaluated and reflected in the preparation of the financial statements. We discuss our conclusions related to going concern, including the effect of Covid-19, later in our report. We adapted our own working practices to remote working and ensured we gathered appropriate audit evidence. Substantially all of the information and audit evidence we need for our audit is provided in electronic format. Based on the work performed, we are satisfied that our audit addressed the impact of any disruption caused by Covid-19. We have also concluded that the impact of Covid-19 has been appropriately evaluated and reflected in the preparation of the financial statements.

Independent auditors' report to the members of Zopa Bank Limited (continued)

Key audit matter	How our audit addressed the key audit matter
The complete and accurate recording of customer deposits and unsecured personal loans As at 31 December 2020 the gross carrying value of unsecured personal loans and deposits was £211.2m (2019 : nil) and £177.8m (2019 : nil) respectively. As explained in the Strategic report, in June 2020 the company was granted its full banking license by the PRA following a capital injection from its parent, Zopa Group Limited. This was the company's first experience of operating in a regulated market, and management had to design and implement new systems, processes and controls over the business, including to ensure the completeness and accuracy of the amounts recorded in the financial statements. This was an important milestone for the company and as a consequence, it was subject to significant internal and external focus and was a focus of our audit. Reference to Note 13 'Loans and advances to customers' in the financial statements.	We evaluated the design effectiveness of the controls implemented by management over the recording of unsecured personal loans and deposits, by performing the following: • we obtained an understanding of the end-to-end transaction flow, including impacted systems, relevant key controls and areas of automation through enquiry and conducting walkthroughs with process owners; • we identified and tested the design effectiveness of key controls implemented by management over the recording of deposits and unsecured personal loans; and • we tested the relevant IT general controls over the systems that are involved in the recording, processing and storing transactions and financial data for deposits and unsecured personal loans. We also tested the key IT dependencies that are relevant for financial reporting. We found these key controls were designed and implemented effectively, and therefore determined that we could place reliance on these key controls for the purposes of our audit. In addition we performed the following substantive procedures: • using data auditing techniques, we agreed the details per the digital contract signed by the customer to the loan details entered into the loans system; • recalculated the interest income and interest expense for the year on the unsecured personal loan and customer deposit balances; • reconciled the cash receipts and payments, as shown on the internal systems, arising from loans and advances and deposit balances to external bank statements; • recomputed the year end loan and deposit balances by taking the opening balances and adjusting for receipts/payments and interest expense/income to recalculate the closing balance; and • reconciled general ledger accounts relevant to the recording of loans and deposits to the sub-ledger, which holds transaction-level details. Based on the procedures performed, we concluded that unsecured personal loans and customer deposits were recorded completely and accurately in the financial statements.

Independent auditors' report to the members of Zopa Bank Limited (continued)

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

The Company provides a variety of financial services to retail customers in the UK. Our overall approach to setting our audit scope was to focus our audit in areas where we identified a higher risk of material misstatement to the financial statements, including areas where management made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. To conduct this risk assessment, we considered the inherent risks facing the company, including those arising from its respective business operations, and how the company manages these risks.

We also considered a number of other factors including the design and implementation of the company's control environment relevant to the audit, the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements and the risk of management override of controls.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	£1,040,000 (2019: £304,700).
How we determined it	5% of the average of the last three years (including FY20) reported loss before tax (2019: 1% of total expenses)
Rationale for benchmark applied	We determined materiality by applying 5% to the average loss before tax for the previous three years. The parent company, management, the Board and the company's regulators are the primary users of the financial statements. We consider loss before tax to be the most appropriate benchmark given profitability of the company is the focus for these users and it is a generally accepted auditing benchmark. Given the volatility in the underlying performance of the company as a consequence of it moving from start-up into operation during 2020, we consider it appropriate to take an average of the results of the preceding three years.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £780,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Board Audit Committee that we would report to them misstatements identified during our audit above £52,000 (2019: £15,200) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- A detailed risk assessment to identify factors that could impact the going concern basis of accounting, including the effect of Covid-19;
- Evaluating management's going concern assessment including the company's capital and liquidity position and financial forecasts over the going concern period and reviewing the ICAAP and ILAAP submissions to the PRA;
- Evaluation of the stress testing performed by management including their severe but plausible downside scenario;
- Substantiation of financial resources available to the company; and
- Reading and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern

Independent auditors' report to the members of Zopa Bank Limited (continued)

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent auditors' report to the members of Zopa Bank Limited (continued)

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Board Audit Committee, we were appointed by the directors on 8 November 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 December 2017 to 31 December 2020.

Nick Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 May 2021

Zopa Bank Limited

Income statement for the year ended 31 December 2020

	Note	31 December 2020 £000	31 December 2019 £000
Interest Income		7,228	640
Interest Expense		(610)	(173)
Net Interest Income	**4**	**6,618**	**467**
Fee and Commission Income	5	152	-
Fee and Commission Expense		(2,072)	(450)
Net Fee and Commission Expense		**(1,920)**	**(450)**
Other Income	6	16,114	12,491
Gains from financial assets measured at FVTPL		71	-
Total Operating Income		**20,883**	**12,508**
Administrative Expenses	7	(38,567)	(30,798)
Operating loss before impairment charges		**(17,684)**	**(18,290)**
Impairment charge on loans and advances to customers		(12,788)	(162)
Loss on disposal of assets	14	(82)	-
Loss before taxation		**(30,554)**	**(18,452)**
Taxation	11	9	585
Loss after tax - attributable to equity holders		**(30,545)**	**(17,867)**

The notes on pages 31-64 form part of these financial statements.

The losses of the Company are derived from continuing operations in the current and prior periods. No other comprehensive income items were recorded during the year (2019: nil).

Zopa Bank Limited

Statement of Financial Position as at 31 December 2020

	Note	31 December 2020 £000	31 December 2019 £000
Assets			
Cash at Central Bank		35,024	-
Cash and balances with other banks		22,189	2,577
Debt securities	12	12,243	243
Loans and advances to customers	13	225,390	16,372
Amounts due from other Group undertakings	23	3,080	646
Prepayments and accrued income		1,480	1,634
Other assets		567	103
Current tax asset	11	522	585
Property, plant and equipment	14	1,376	1,417
Right of use assets	15	511	889
Intangible assets	16	12,183	6,384
Total Assets		**314,565**	**30,850**
Liabilities			
Amounts due to banks		11	-
Deposits from Customers		177,823	-
Derivatives held for risk management	25	97	-
Amounts due to other Group undertakings	23	3,128	7,867
Accruals and deferred income		3,446	1,512
Provisions	17	224	103
Other liabilities	18	1,747	928
Lease liabilities	15	467	802
Total Liabilities		**186,943**	**11,212**
Equity			
Share capital	19	192,319	54,160
Other reserves		4,324	1,786
Accumulated losses		(69,021)	(36,308)
Total Equity		**127,622**	**19,638**
Total Liabilities and Equity		**314,565**	**30,850**

The notes on pages 31-64 form part of these financial statements.

Other reserves consist of a share based payments reserve and a capital contribution reserve.

The financial statements of Zopa Bank Limited (Registered Number 10627575) on pages 28-65 were approved by the Board of Directors on 18 May 2021 and were signed on its behalf by:

DocuSigned by:
Jaidev Janardana
D6FE56B81175445...
Jaidev Janardana
Director
28 May 2021

Zopa Bank Limited

Statement of changes in equity for the year ended 31 December 2020

	Note	Share Capital £000	Accumulated Losses £000	Other Reserves £000	Shareholders' Equity £000
Balance at 1 January 2019		**39,160**	**(18,441)**	**1,088**	**21,807**
Comprehensive expense					
Loss for the year		-	(17,867)	-	**(17,867)**
Total comprehensive expense		-	**(17,867)**	-	**(17,867)**
Transactions with owners					
Issue of share capital		15,000	-	-	**15,000**
Share based payment charge		-	-	698	**698**
Total transactions with owners		**15,000**	-	**698**	**15,698**
Balance at 31 December 2019		**54,160**	**(36,308)**	**1,786**	**19,638**
Balance at 1 January 2020		**54,160**	**(36,308)**	**1,786**	**19,638**
Comprehensive expense					
Loss for the year		-	(30,545)	-	**(30,545)**
Total comprehensive expense		-	**(30,545)**	-	**(30,545)**
Transactions with owners					
Issue of share capital		138,159	-	-	**138,159**
Share based payment charge	21	-	-	920	920
Transfer of assets from related party	23	-	(2,168)	-	(2,168)
Capital contribution	23	-	-	1,618	1,618
Total transactions with owners		**138,159**	**(2,168)**	**2,538**	**138,529**
Balance at 31 December 2020		**192,319**	**(69,021)**	**4,324**	**127,622**

The notes on pages 31-64 form part of these financial statements.

Other reserves consist of a share based payments reserve and a capital contribution reserve

Zopa Bank Limited

Statement of cash flows for the year ended 31 December 2020

		31 December 2020 £000	31 December 2019 £000
Cash flows from operating activities	**Note**		
Loss before taxation		(30,554)	(18,452)
Adjustments for:			
Increase in operating assets	26	(211,699)	(10,839)
Increase in deposits from customers		177,823	-
Increase in other operating liabilities		2,764	626
(Increase)/decrease in restricted balances		(4)	6
Decrease in lease liabilities		(317)	(232)
Non-cash and other items	26	5,009	3,297
Net cash used in operating activities		**(56,978)**	**(25,594)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(221)	(184)
Purchase of intangible assets		(2,675)	(1,307)
Interest received on cash and debt securities		24	31
Net cash used in investing activities		**(2,872)**	**(1,460)**
Cash flows from financing activities			
Issue of new shares		138,159	15,000
(Decrease) / Increase in intercompany loan balances		(11,499)	2,522
Interest paid on intercompany loans		(178)	(153)
Net cash provided by financing activities		**126,482**	**17,369**
Net increase / (decrease) in cash and cash equivalent		**66,632**	**(9,685)**
Cash and cash equivalent at the start of the year		2,736	12,421
Movement during the year		66,632	(9,685)
Cash and cash equivalent at the end of the year		**69,368**	**2,736**
Cash and cash equivalents consist of:			
Cash at central bank		35,024	-
Cash and balances with other banks		22,189	2,577
Less restricted balances		(88)	(84)
Debt securities		12,243	243
Cash and cash equivalent at the end of the year		**69,368**	**2,736**

The notes on pages 31-64 form part of these financial statements.

1. Principal accounting policies

(a) Basis of preparation

The Company is incorporated and domiciled in England & Wales in the United Kingdom under the Companies Act 2006. The Company is a private company and is limited by shares. The address of the registered office is detailed on page 3.

These financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ("IFRS") and the applicable legal requirements of the Companies Act 2006.

The financial statements have been prepared under the historical cost convention or at fair value for financial instruments measured at fair value through profit and loss or other comprehensive income. The principal accounting policies, which have been consistently applied, are set out below.

(b) Functional and presentation currency

The financial statements are presented in Pounds Sterling, which is the functional and presentational currency of the Company. All amounts have been rounded to the nearest thousand, except where otherwise indicated.

Foreign currency transactions are translated into functional currency using the spot exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the spot exchange rate at the reporting date. Foreign exchange gains and losses resulting from the restatement and settlement of such transactions are recognised in the statement of profit and loss.

Non-monetary assets and liabilities that are measured on a historical cost basis and denominated in foreign currencies are translated into the functional currency using the spot exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value and denominated in foreign currencies are translated into the functional currency at the spot exchange rate at the date of valuation.

(c) Going concern

The financial statements have been prepared on a going concern basis, as the Directors are satisfied that the Company will have the resources to continue business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources. The Company's capital and liquidity plans, including alternative scenarios, have been reviewed by the Directors. When preparing the forecasts, the Company has reflected the economic repercussions of the coronavirus, including the risk of worse than expected credit performance and lower demand for borrowing, thus contributing to lower growth.

The base case forecast assumes that the Company will receive a further capital injection from its Parent in to enable continued asset growth. The Board also evaluated alternative scenarios, including the impact of Zopa Group Limited injecting capital at a later point or the capital raises being delayed for other reasons. In this event, the Company would execute a series of actions to manage its regulatory capital position by reducing new lending volumes. These actions would ensure that the Company continued to meet its regulatory capital and liquidity requirements as set out by the PRA without a further injection of capital in 2021 or 2022.

(d) Presentation of risk and capital disclosures

Principal risks and uncertainties are disclosed in the strategic report, whilst IFRS 7 disclosures for financial risks, including capital risk, are disclosed in Note 24.

(e) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected. Information about areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in note 3.

(f) New and amended standards adopted by the Company

There are no new or amended standards adopted by the Company for the year ended 31st December 2020.

<u>Other amendments effective on 1 January 2020</u>

The following amendments became effective on 1 January 2020, but have no impact on the financial statements as the Company does not have any activity or products relating to them:

- Revised Conceptual Framework for Financial Reporting
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

(g) New standards, amendments and interpretations issued but not mandatory effective before 31 December 2020

The following amendments are effective for annual periods beginning on or after 1 January 2021 and there is no financial impact of these standards at present, however the Company will review and assess any impact in the future:

- COVID-19-Related Rent Concessions (Amendment to IFRS 16)
- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018–2020
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to the Conceptual Framework (Amendments to IFRS 3)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- IFRS 17 Insurance Contracts, amendments to definitions to IAS1 and IAS 8 and amendments to IFRS 3 – Definition of a business
- Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

Zopa Bank Limited

Notes to the financial statements (continued)

2. Significant accounting policies

(a) Interest income and expense

Interest income and expense presented in the income statement includes:

- hire purchase (HP) auto loan contracts to customers. Lease income is recognised within interest income in the income statement over the term of the lease using the net investment method (before tax) which reflects a constant periodic rate of return.
- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate ("EIR") basis.

The EIR is the rate that, at the inception of the financial asset and liability, exactly discounts expected future cash payments and receipts over the expected life of the instrument back to the initial carrying amount. When calculating the EIR, the Company estimates cashflows considering all contractual terms of the instrument but does not consider the assets' future credit losses. Management judgement is required in determining the expected life of the loans.

The calculation of the EIR includes all transaction costs and fees paid or received that are an integral part of the interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset.

(b) Fee and commission income and expense

Fee and commission income includes fees relating to services provided to customers which do not meet the criteria for inclusion within interest income.

The Company recognises fee and commission income when services are provided to customers and the Company has satisfied its performance obligations under the contract, at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods and services, and management concludes that there is a high probability that there will be no significant reversal of the estimated income.

Fee and commission income is mainly comprised of fees charged to credit card customers and referral commission.

Fee and commission expense consists of introducer commissions, legal and valuation fees and credit search fees. Where these fees and commissions are incremental costs that are directly attributable to the issue of a financial instrument, they are included in interest income as part of the EIR calculation. Where they are not incremental costs that are directly attributable, they are recognised within fee and commission expense as the services are received.

(c) Other income

Other income relates to outsourcing services the Company provides to other entities in the Group. The consideration is measured at arm's length, using the "cost plus" method, where the mark-up is benchmarked by reference to similar independent service providers.

The Company recognises other income when services are provided to customers and the Company has satisfied its performance obligations under the contract, at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods and services, and management concludes that there is a high probability that there will be no significant reversal of the estimated income.

(d) Financial instruments

Recognition of financial instruments

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets are recognised on trade date.

Derecognition of financial instruments

Financial assets are derecognised when and only when:

- the contractual rights to receive the cash flows from the financial asset expire; or
- the Company has transferred substantially all the risks and rewards of ownership of the assets.

On derecognition of a financial asset, the difference between the carrying amount (or the carrying amount allocated to the portion being derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) is recognised in the income statement.

A financial liability is derecognised when the obligation is discharged, cancelled or expires. Any difference between the carrying amount of a financial liability derecognised and the consideration paid is recognised in the income statement.

Classification of financial assets

There are three principal classification categories for financial assets:

- measured at amortised cost;
- fair value through other comprehensive income (FVOCI); and
- fair value through profit or loss (FVTPL).

To classify financial assets the Company performs two tests: one to evaluate the business model in which financial assets are managed and the other to assess their cash flow characteristics.

The 'business model assessment' determines whether the Company's objective is to generate cash flows from collecting contractual cash flows, or by both collecting contractual cash flows and selling financial assets. The assessment is performed at a portfolio level as this best reflects the way business is managed and how information is provided to management. The assessment is based on expected scenarios. If cash flows are realised in a manner that is different from the original expectation, the classification of the remaining assets in that portfolio is not changed but such information is used when assessing new financial assets going forward.

The assessment of cash flow characteristics determines whether the contractual cash flows of the financial asset are solely payments of principal and interest on the principal amount outstanding (SPPI) and is referred to as the 'SPPI test'. For the purposes of the SPPI test, principal is defined as the fair value of the financial asset at initial recognition. Interest is defined as consideration for the time value of money and credit risk associated with the principal amount outstanding and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a reasonable profit margin. The SPPI test is performed at an instrument level based on the contractual terms of the instrument at initial recognition. Only debt instruments can meet the SPPI test.

Since both the SPPI and business model tests are passed, almost all the financial assets held by the Company are classified as measured at amortised cost. The only exception relates to an insignificant portfolio of loans and advances to customers intended to be sold to third parties. This portfolio is classified as held to collect and sell and is measured at FVOCI. As at 31 December 2020 there was a portfolio of unsecured personal loans for £60k originated with the purpose selling them to retail investors on Zopa Limited's (a group affiliated entity) P2P platform. Due to liquidity constraints this portfolio remained on the statement of financial position of the Company as at 31 December 2020. The fair value represents the cash disbursed on origination. In January 2021 this portfolio was eventually sold to retail

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Notes to the financial statements (continued)

investors as intended at no gain or loss. For this reason, there was no fair value movement nor any gain or loss for the year ended 31 December 2020 and no subsequent statement of other comprehensive income has been prepared.

Subsequent to initial recognition, financial assets are reclassified only when the Company changes its business model for managing financial assets. Where this is the case, the Company reclassifies all affected financial assets in accordance with the new business model. The reclassification is applied prospectively.

Measurement of financial assets

Financial assets measured at amortised cost are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, these are measured at amortised cost using the EIR method. The amortised cost is the amount advanced less principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the amount advanced and the maturity amount, less impairment provisions for incurred losses. Financial assets measured at amortised cost mainly comprise loans and advances to customers and cash and balances with other banks.

Financial assets measured at fair value through other comprehensive income (FVOCI) are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, they are measured at fair value based on valuation techniques including discounted cash flow analysis, with reference to relevant market rates and other commonly used valuation techniques. Interest income is recognised in the income statement using the EIR method. Impairment provisions are recognised in the income statement. Other fair value movements are recognised in other comprehensive income and presented in the FVOCI reserve in equity. On disposal, the gain or loss accumulated in equity is reclassified to the income statement.

The Company holds forward contracts for the purchase of foreign currencies in order to manage its exposure to foreign exchange risk. These are recognised as derivatives held for risk management and are measured at fair value through profit or loss.

Financial liabilities at amortised cost

Financial liabilities are contractual obligations to deliver cash or another financial asset. Financial liabilities are recognized initially at fair value, net of directly attributable transaction costs for financial liabilities other than derivatives. Subsequently they are measured at amortised cost. Any difference between proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the period of the borrowings using the EIR method.

Impairment of financial assets

This policy applies to:

- financial assets measured at amortised cost;
- loan commitments; and
- finance lease receivables where the Company is the lessor.

The estimation of credit risk of loans and advances for credit risk management purposes is complex and requires the use of models, as exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Company measures credit risk by assessing Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). Expected credit loss (ECL) is the product of these 3 values. Further details on the estimation of ECL can be found in note 3.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality. A financial instrument that is not credit impaired on initial recognition is classified as in Stage 1 and has its credit risk continually monitored by the

Zopa Bank Limited

Notes to the financial statements (continued)

Company. If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed credit impaired. If the financial instrument is classified as credit impaired, the financial instrument is then moved to Stage 3. The key judgements and assumptions adopted by the Company in addressing the requirements of the standard are discussed below:

Significant increase in credit risk (SICR) - Movement from Stage 1 to Stage 2

The Company considers a financial instrument to have experienced a SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

Quantitative Criteria
The remaining lifetime PD at the reporting date has increased significantly, compared to the residual lifetime PD expected when the exposure was first recognised. Loans that have a revised PD ratio of more than or equal to the PD ratio threshold as determined by the Company are deemed to have suffered a SICR. The revised PD ratio is the cumulative adjusted PD over the cumulative expected PD at origination. It reflects the probabilities of default for the remaining life of a loan. The cumulative adjusted PD is the weighted average PD across different economic scenarios.

Qualitative Criteria

- The borrower has agreed to an alternative payment plan
- The borrower is in arrears

Backstop
A backstop is applied, and the financial instrument considered to have experienced a SICR if the borrower is more than 30 days past due on their contractual payments.

Definition of default and credit impaired assets - Movement from Stage 2 to Stage 3

The Company defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative Criteria
The borrower is more than more than 60 days past due in the case of Auto loans, and more than 90 days past due for Unsecured Personal loans and credit cards.

Qualitative Criteria
The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where the borrower is subject to bankruptcy proceedings, distressed restructuring, is deceased, or similar circumstances.

All financial instruments in default are considered to be in Stage 3.

No loans are currently subject to permanent forbearance arrangements and all loans and advances to customers are originated within the United Kingdom.

Write-Off and Recoveries

Write-off shall occur when either part, or all, of the outstanding debt is considered irrecoverable and all viable options to recover the debt have been exhausted. Any amount received after a provision has been raised or debt has been written-off, will be recorded as a recovery and reflected as a reduction in the impairment loss reflected in the income statement.

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Notes to the financial statements (continued)

(e) Leases

As a lessor

The accounting treatment for leases under IFRS 16, where the Company acts as a lessor remained unchanged from IAS 17. The company provides finance for hire purchase auto leases to customers. When assets are leased to customers under finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised within interest income in the income statement over the term of the lease using the net investment method (before tax) which reflects a constant periodic rate of return ignoring tax cash flows.

As a lessee

The Company leases various properties for office space and a data centre. Contracts may contain both lease and non-lease components.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. In the absence of any borrowing history, prior to June 2020 the Company determined its incremental borrowing rate to be equal to the SONIA rate plus a margin of 2%.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

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Notes to the financial statements (continued)

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

(f) Property, plant and equipment (PPE) and depreciation

Property, plant and equipment are stated at historic purchase cost less accumulated depreciation. The cost of tangible assets is their purchase cost together with incidental costs of acquisition. Incidental costs only include those that are necessary to bring the asset into the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values on a straight-line basis over the expected useful economic lives of the assets concerned being:

- Office equipment 3-5 years
- Fixtures and fittings 3 years

Depreciation is charged from the first full month after the date of acquisition of the asset. Residual values and useful economic lives for tangible assets are reviewed regularly and revised when necessary.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(g) Intangible assets and amortisation

<u>Banking Licence</u>

This consists of both employee costs and also other costs that have been incurred during the banking licence application process. The banking licence is considered to have an indefinite useful life.

<u>Purchased intangibles</u>

This includes technology assets and brand purchased from group companies. Purchased intangible assets are recognised at historic cost and amortised over their useful life.

<u>Internally generated</u>

Internally generated intangible assets relate to development costs, including employee costs, of intangible assets which are developed in house. Internally generated assets are recognised if all of the following criteria are met:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- there is an intention and the ability to use or sell the intangible asset;
- adequate technical, financial and other resources are available to complete the development and to use or sell the intangible asset;
- it is probable that the asset will result in a flow of future economic benefits; and
- the expenditure attributable to the asset can be reliably measured.

Intangible assets are amortised on a straight-line basis over their useful lives and the amortisation recorded within operating expenses in the Income Statement once the asset is brought into revenue-generating use. The useful life of the purchased and internally generated intangible assets is considered to be 3 years. The residual value of intangible assets is assumed to be zero. Impairment reviews are carried out at the end of each reporting period. Assets are stated at cost less accumulated amortisation and any recognised impairment.

(h) Impairment of non-financial assets

Banking Licence

The banking licence is tested for impairment at least annually. An impairment loss is recognised if the carrying amount of the banking licence is less than its recoverable amount. The recoverable amount is the greater of its value in use and its fair value less costs to sell. Value in use is calculated from forecasts by management of post-tax profits for the subsequent five years and a residual value discounted at a risk adjusted interest rate. Fair value is determined through review of equity valuations for the latest funding round. Where impairment is required, the amount is recognised in the income statement and cannot be subsequently reversed.

PPE and Other intangible assets

If impairment is indicated, the asset's recoverable amount, being the greater of value in use based on expected future cash flows and fair value less costs to sell, is estimated. If the carrying value of the asset is greater than the greater of the value in use and the fair value less costs to sell, an impairment loss is recognised in the income statement. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

(j) Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities are translated at the rates of exchange ruling on the reporting date and any differences arising are generally recognised in the income statement. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within administrative costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses. Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in GB Pound Sterling (£), which is the Company's functional and presentation currency.

(k) Income tax

The income tax expense or credit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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Notes to the financial statements (continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. As at the reporting date the Company is not recognising any deferred tax assets.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The Company may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure (e.g. the Research and Development Tax Incentive regime in the UK or other investment allowances). The financial statements account for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

(l) Employee benefits

Employee benefits are wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the year in which the employees render the related service. Liabilities are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

The liabilities are presented as accruals and deferred income in the statement of financial position.

(m) Pension obligations

The Company operates a defined contribution plan. The Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. It has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(n) Share-based payments

Equity-settled share-based compensation benefits are provided to employees of the Group's subsidiaries via options granted under the 2005 Stock Incentive Plan, 2015 Stock Incentive Plan, the Zopa Group Limited Company Share Option Plan, the Zopa Group Limited Joint Share Option Plan, the Non-Tax Advantaged Share Option Plan and the Management Incentive Plan. They are all granted, and equity settled by the parent company, Zopa Group Limited.

The fair value of options granted is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted.

Zopa Bank Limited

Notes to the financial statements (continued)

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each year, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

In the event of a modification of an award the fair value of the original award and of the modified or replacement award are assessed at the date of the modification. Where a modification is beneficial the incremental fair value is recognised in profit and loss over the remaining vesting period with the incremental fair value for vested awards recognised immediately.

(o) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents is comprised of cash and advances to banks and short term highly liquid debt securities with less than 3 months to maturity from the date of acquisition, less any restricted balances.

(p) Government grants

Coronavirus Job Retention Scheme grants of £236k (2019: £nil) are included in the Administrative Expenses line item. There are no unfulfilled conditions or other contingencies attaching to these grants. The group did not benefit directly from any other forms of government assistance.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

(q) Transactions under Common Control

The transfer of assets between entities under common control is done so at the carrying value using predecessor accounting.

3. Critical accounting judgements and estimates

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Share based payments (estimate)

The Company has used the Black Scholes valuation model to estimate the fair value of share-based payments. The approach taken and the inputs used in the Black Scholes model are disclosed in Note 21.

(b) Measurement of the expected credit loss allowance (estimate)

The measurement of the expected credit loss (ECL) allowance for financial assets is an area that requires the use of complex models and significant assumptions, as outlined below, about future economic conditions and credit behaviour.

<u>Definition of default</u>

IFRS 9 does not define default for the purpose of defining the Probability of Default (PD) as used when calculating ECLs and impairment provisions for stage 1 and stage 2 assets. As detailed in note 2(d)(vii), the Company has defined default on a basis that is consistent with the definition it uses for determining whether an asset is credit impaired, and is

Zopa Bank Limited

Notes to the financial statements (continued)

therefore classified as stage 3, and with the definition of default that is used for regulatory reporting purposes.

Significant increase in Credit Risk for classification in stage 2

As explained in note 2(d), loan impairment provisions are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased, the Company takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to note 2(d) for more details.

PD models

The Company has developed PD models, tailored to different types of lending with shared characteristics, to assess the likelihood of default within the next 12 months and over the lifetime of each loan. The models calculate estimates of PDs based upon current characteristics of the loan and observed historical default rates.

LGD models

The Company has developed Loss Given Default (LGD) models for the different types of lending. The LGDs are based on historical recoveries, which included any past debt sales, and benchmark information obtained from credit bureaus or other sources.

Economic Scenarios

In its forward-looking adjustments for impairment provision calculations, the Company adopted four economic scenarios. These scenarios represent the Company's view on potential future economic conditions and how they are expected to impact the credit performance of its portfolios.

The key macroeconomic indicators identified as drivers for the performance of the Company's credit portfolio are the UK Unemployment Rate and the UK Consumer Debt to Income Ratio. Both indicators are used in a proprietary macroeconomic model that estimates the expected effect of the future macroeconomic conditions on the performance of the Company's credit portfolio. The expected effect translates to an adjustment factor for PD. Further adjustments are made to the LGD to reflect the expected deterioration in recoveries and the debt sale market in periods of macroeconomic stress. In the interest of adopting unbiased scenarios that maximise the use of independent information, economic scenarios are underpinned by forecasts obtained from a specialist external consultancy, which develops the Base scenario projections based on forecasts published by HM Treasury, the Bank of England Monetary Policy Committee and the Office for Budget Responsibility (OBR). These externally sourced economic projections are assessed by the Company at the bank level and management judgment is applied in defining what is used as input into the impairment provision model.

The economic projections used by the Company are updated quarterly and the economic scenarios used in the credit impairment provision model are reviewed accordingly. In conjunction with reviewing the economic projections the probability weight for each scenario is also evaluated.

The narrative across all scenarios assumes that a proportion of the population will be vaccinated by May/Jun-21. The peak of job losses and subsequent pace of recovery depends on how effective the vaccine will be, i.e. for how long does it secure protection or whether it's effective across all age groups, and on how extensive the vaccination can be across the population by the end of Sep-21 (before the next seasonal spike in infections). On top of the above, 2 of the scenarios are also assuming some form of disruption in the economy due to the UK / EU trade agreement.

As of year-end, the economic scenarios adopted by Zopa for calculating credit impairment provisions can be described as follows:

Under scenario 1 (Upside), the vaccine identified is effective across age groups and secures immunisation for 1+ years,

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Notes to the financial statements (continued)

while the government makes significant efforts to ensure the majority of the population is vaccinated by September. The UK / EU trade agreement doesn't cause any disruption in trade. This all translates into high business and consumer confidence, which results in a low Unemployment Rate peak (5.9%) and then a relatively fast recovery (albeit not as fast as it was imagined earlier in the year). We have assigned a 20% probability to this scenario.

Under scenario 2 (Base), the vaccine identified only secures immunisation for 6-12 months and/or the vaccination efforts are only enough for the elderly / vulnerable to be protected before the next seasonal spike. This causes some uncertainty and business and consumer confidence are higher than before, but not at the pre-COVID levels. The UK / EU trade agreement causes minimal disruption in trade. This translates to an Unemployment Rate peak of 7.5% and a slow recovery that will take Unemployment Rate to below 6% in the 2nd half of 2022. We have assigned a 50% probability to this scenario.

Under scenario 3 (Downside), the business and consumer confidence cannot rebound as it is clear that the vaccine is not effective or that the vaccinations will not be enough to immunise a large part of the population until next winter. Life cannot return to normal until 2022 albeit a lock-down might not be needed. At the same time, the impact of the UK / EU trade agreement is more significant than expected originally. The peak of Unemployment Rate is 10.1% and it will reach 6% at the end of 2023. We have assigned a 25% probability to this scenario.

Under scenario 4 (Severe Downside), the Unemployment Rate peaks at 12.7% and it won't drop to below 6.5%, as there is still uncertainty around the evolution of the pandemic and it has become clear that the vaccine identified is not effective. At the same time, the impact of the UK / EU trade agreement is very severe. We have assigned a 5% probability to this scenario.

The scenario weights have changed since 2019 to factor the impact of bank launch and a growing balance sheet, as well as the impact of Covid-19 and mitigation actions taken. Probability weights are reviewed every quarter together with updates to the macroeconomic scenarios.

The forecast for the key metrics used by the Company in its impairment provision calculation are summarized in the table below:

Scenario	**Probability Weight**		**5-year peak unemployment rate**		**5-year peak consumer debt to income ratio**	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Upside	20%	10%	5.9%	3.7%	55.5%	23.9%
Base case	50%	60%	7.5%	4.2%	59.4%	26.6%
Downside	25%	20%	10.1%	5.3%	59.8%	30.5%
Severe downside	5%	10%	12.7%	7.6%	61.9%	33.5%

The updated macroeconomic scenarios as at 31 December 2020, would have resulted in a £1.7m ECL release. Due to the significant uncertainties that remained at the time in relation to potential future lockdowns, the efficacy of the vaccine, the implications of new virus variants and the vaccination programme, management decided against recognising the ECL release and maintaining it as an overlay to the ECL model output. The £1.7m ECL overlay was estimated by keeping the macroeconomic outlook the same as the third quarter of 2020.

<u>Sensitivity analysis</u>

If the upside scenario were to materialise and so receive a weighting of 100%, the loss allowance as at 31 December 2020, would have been £9.5m (31 December 2019: £148k). Conversely, under the downside scenario it would have been £13.9m (31 December 2019: £291k). This would have resulted in a reduction in the provision of £3.2m and an increase of £1.2m respectively (2019: increase £60k, increase £43k).

Zopa Bank Limited

Notes to the financial statements (continued)

4. Net Interest Income

	2020	2019
Interest income calculated using the effective interest method	**£000**	**£000**
Cash and cash equivalent	24	1
Debt securities	-	30
Interest income on loans and advances to customers	7,204	609
Total interest income	**7,228**	**640**

	Note	2020 £000	2019 £000
Interest expense calculated using the effective interest method on:			
- Customer accounts		412	-
- Lease liabilities	15	19	20
- Financial liabilities from other group undertakings	23	178	153
- Other		1	-
Total interest expense arising from financial liabilities measured at amortised cost		**610**	**173**

5. Fee and commission income

	2020 £000	2019 £000
Revenue from contracts with customers	50	-
Other fee and commission income	102	-
Total fee and commission income	**152**	-

6. Other income

	Note	2020 £000	2019 £000
Intercompany recharges	23	16,114	12,491
Total other income		**16,114**	**12,491**

7. Administrative expenses

	Note	2020 £000	2019 £000
Staff Costs	8	23,254	15,403
Less: Capitalised development costs		(2,570)	(1,307)
Information Technology		3,369	2,716
Intercompany recharges	23	7,029	6,313
Legal and Professional		1,936	2,216
Depreciation		1,132	725
Amortisation	16	3,184	1,151
Other		1,233	3,581
Total administrative expenses		**38,567**	**30,798**

Zopa Bank Limited

Notes to the financial statements (continued)

8. Staff Costs

	Note	2020 £000	2019 £000
Wages and salaries		19,324	12,636
Social Security costs		2,343	1,690
Other pension costs		667	379
Share based payments	21	920	698
Total staff costs		**23,254**	**15,403**

Wages and salaries are reduced by government grants in relation to COVID-19 totalling £236k (2019: nil). There are no unfulfilled conditions attached to these grants. Pension costs relate to amounts paid into defined contribution pension schemes. The average monthly number of persons (including Directors) employed during the year was:

	2020 Number	2019 Number
Administration	136	111
Loan operations and servicing staff	181	91
Total	**317**	**202**

9. Directors' Remuneration

	2020 £000	2019 £000
Directors' emoluments	563	448
Payments in respect of personal pension plans	10	2
Shared based compensation arrangements	256	15
	829	**465**

Payments in respect of personal pension plans relate to 1 director (2019: 1)

Highest paid Director

The below amounts include the following in respect of the highest paid Director:

	2020 £000	2019 £000
Emoluments	223	108
Payments in respect of personal pension plans	10	-
Shared based compensation arrangements	256	-
	489	**108**

10. The Company's Auditors

Services provided by the Company's auditors (excluding VAT):	2020 £000	2019 £000
Fees payable to the Company's auditors for the audit of the financial statements	312	97
Fees payable for the audit of the prior year	20	-
Other assurance services	7	-

Zopa Bank Limited

Notes to the financial statements (continued)

11. Taxation

a) Tax Credit

	2020 £000	2019 £000
Current tax on losses for the year	-	(513)
Over provision in previous year	(9)	(72)
Total current tax credit	**(9)**	**(585)**
Deferred Tax	-	-
Over provision in previous year	-	-
Total deferred tax charge	**-**	**-**
Total tax credit	**(9)**	**(585)**

Tax credits relate to research and development. At Summer Budget 2015, the government announced legislation setting the Corporation Tax main rate (for all profits except ring fence profits) at 19% for the years starting 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020. A further reduction to 17% for the year starting 1 April 2020 was announced at Budget 2016.

At Budget 2020, the government announced that the Corporation Tax main rate (for all profits except ring fence profits) for the years starting 1 April 2020 and 2021 would remain at 19%. Deferred taxes at the reporting date have been measured using these expected tax rates and reflected in these statements.

b) Reconciliation of effective tax rate

	2020 £000	2019 £000
Loss before tax	**(30,554)**	**(18,452)**
Tax at 19.00% (2019: 19.00%)	(5,805)	(3,506)
Expenses not deductible for tax purposes	137	137
Over provision in previous year	(9)	(72)
Losses for which no deferred tax asset is recognised	5,559	3,077
Other differences	109	(221)
Total tax credit	**(9)**	**(585)**

Deferred tax assets have not been recognised in respect of the following items, because it is not probable that future taxable profit will be available against which the Company can use the benefits therefrom.

c) Unrecognised deferred tax assets

	2020 £000	2019 £000
Deductible temporary differences	-	-
Tax losses carried forward	10,344	4,785
	10,344	**4,785**

Zopa Bank Limited

Notes to the financial statements (continued)

12. Debt securities

	2020 £000	2019 £000
Debt securities at amortised cost		
UK government Treasury Bills	12,243	243
	12,243	**243**

All debt securities are expected to be recovered within 12 months of the reporting date.

All debt securities were stage 1 assets under IFRS 9 as at 31 December 2020 and 31 December 2019. The provision for expected credit losses was immaterial as at 31 December 2020 (31 December 2019: nil).

13. Loans and advances to customers

a) Analysis of loans and advances to customers

	2020 £000	2019 £000
Gross loans and advances to customers	238,066	16,580
less: loss allowance for impairment losses	(12,676)	(208)
Total loans and advances to customers	**225,390**	**16,372**
Amounts expected to be recovered more than 12 months after the reporting date	148,151	11,887

b) Finance lease receivables

	2020 £000	2019 £000
Gross amounts receivable:		
Less than one year	7,465	5,340
One to five years	17,236	13,015
More than five years	-	-
Total gross investment in finance leases	**24,701**	**18,355**
Unearned finance income	(2,803)	(1,775)
Net investment in finance leases	**21,898**	**16,580**
Less than one year	6,499	4,537
One to five years	15,399	12,043
More than five years	-	-
Net investment in finance leases	**21,898**	**16,580**

Leases have fixed payments and are held to maturity. Due to the nature of the business undertaken, there are no material unguaranteed residual values for any of the finance leases at 31 December 2020 (31 December 2019: no material residual values).

14. Property, plant and equipment

	Office Equipment £000	Fixtures and fittings £000	Total £000
Cost			
Balance at 1 January 2019	2,053	66	2,119
Additions	184	-	184
Disposals	(5)	-	(5)
Balance at 31 December 2019	**2,232**	**66**	**2,298**
Balance at 1 January 2020	2,232	66	2,298
Additions	211	-	211
Transferred from related party	615	15	630
Disposals	(90)	(66)	(156)
Balance at 31 December 2020	**2,968**	**15**	**2,983**
Accumulated depreciation			
Balance at 1 January 2019	358	28	386
Depreciation charge for the year	476	22	498
Disposals	(3)	-	(3)
Balance at 31 December 2019	**831**	**50**	**881**
Balance at 1 January 2020	831	50	881
Depreciation charge for the year	811	26	837
Disposals	(45)	(66)	(111)
Balance at 31 December 2020	**1,597**	**10**	**1,607**
Carrying amounts			
Balance at 1 January 2019	1,695	38	1,733
Balance at 31 December 2019	1,401	16	1,417
Balance at 31 December 2020	**1,371**	**5**	**1,376**

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year ended 31 December 2020 (31 December 2019: nil). Further details on transfers from a related party can be found in note 23.

15. Leases as a lessee

Information about the leases for which the Company is a lessee is presented below. Leases all relate to leasehold property.

a) Right-of-use assets (Leasehold Property)

	2020 £000	2019 £000
Balance at 1 January	889	360
Additions	89	756
Disposals	(172)	-
Depreciation charge for the year	(295)	(227)
Balance at 31 December	**511**	**889**

b) Lease Liabilities

	2020 £000	2019 £000
Balance at 1 January	802	334
Additions	89	680
Disposals	(126)	-
Interest charge for the year	19	20
Payments during the year	(317)	(232)
Balance at 31 December	**467**	**802**
Current	205	277
Non-current	262	525
Total	**467**	**802**

	2020 £000	2019 £000
Maturity analysis - contractual undiscounted cashflows		
Less than one year	205	277
One to five years	306	562
Total undiscounted lease liabilities	**511**	**839**

c) Amounts recognised in the income statement

	2020 £000	2019 £000
Interest on lease liabilities	19	20
Expenses relating to short term leases (included in administrative expenses)	-	62

d) Amounts recognised in the statement of cashflows

	2020 £000	2019 £000
Total cash outflows for leases	317	232

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Notes to the financial statements (continued)

16. Intangible assets

	Purchased brand £000	Purchased software £000	Internally generated £000	Banking licence £000	Total £000
Cost					
Balance at 1 January 2019	3,331	1,192	121	1,686	6,330
Additions	-	-	1,130	177	1,307
Disposals	-	-	-	-	-
Balance at 31 December 2019	**3,331**	**1,192**	**1,251**	**1,863**	**7,637**
Balance at 1 January 2020	3,331	1,192	1,251	1,863	7,637
Additions	-	105	2,460	110	2,675
Transferred from related party	-	12	6,296	-	6,308
Transfer (from)/to*	-	(1,144)	1,144	-	-
Balance at 31 December 2020	**3,331**	**165**	**11,151**	**1,973**	**16,620**
Accumulated amortisation					
Balance at 1 January 2019	**93**	**9**	**-**	-	**102**
Amortisation charge for the year	1,111	16	24	-	1,151
Balance at 31 December 2019	**1,204**	**25**	**24**	**-**	**1,253**
Balance at 1 January 2020	1,204	25	24	-	1,253
Amortisation charge for the year	1,109	34	2,041	-	3,184
Balance at 31 December 2020	**2,313**	**59**	**2,065**	**-**	**4,437**
Carrying amounts					
Balance at 1 January 2019	3,238	1,183	121	1,686	6,228
Balance at 31 December 2019	2,127	1,167	1,227	1,863	6,384
Balance at 31 December 2020	**1,018**	**106**	**9,086**	**1,973**	**12,183**

Transfers (from) / to relates to the reclassification of assets purchased from a related party and subsequently enhanced and developed internally to be ready for use.

17. Provisions

	Dilapidations £000	FCA Levy £000	Total £000
As at 1 January 2019	-	-	-
Provided during the year	71	-	71
Change on initial application of IFRS 16	32	-	32
Balance at 31 December 2019	**103**	**-**	**103**
Balance at 1 January 2020	**103**	-	**103**
Utilised during the year	(31)	-	(31)
Provided during the year	-	152	152
Balance at 31 December 2020	**72**	**152**	**224**

Dilapidations relates to the cost expected to be incurred to return the properties back to the landlords at their initial state. The figure is an estimate based on the incurred costs to furnish the properties on commencement of each lease.

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Notes to the financial statements (continued)

18. Other Liabilities

	2020	2019
	£000	£000
Other taxation and social security	901	681
Trade creditors	203	164
Expected credit losses on undrawn credit card balances	180	-
Other payables	463	83
	1,747	**928**

19. Share Capital

	2020	2019
Authorised allotted and fully paid:	**£000**	**£000**
Type		
Ordinary shares of £1 each	192,319	54,160
Share Capital	**192,319**	**54,160**

As at 31 December 2020, there were 192,319,069 ordinary £1.00 shares in issue resulting in share capital of £192,319,069 (31 December 2019: 54,160,100 shares and £54,160,100 respectively).

In 2020, 138,158,969 Ordinary Shares of £1.00 each were issued to Zopa Group Limited, the Company's Parent company for a consideration of £138,158,969 (2019: 15,000,000).

20. Ultimate parent undertaking and controlling party

Zopa Group Limited (UK Company number 10624955) holds 100% of the issued capital of Zopa Bank Limited and as at 31 December 2020 was therefore regarded as the immediate parent undertaking. Zopa Group Limited prepares consolidated financial statements, including the results of the Company, which are available from Companies House, for all Company entities.

Following the change in control in June 2020, the Directors consider IAG Silverstripe Partners LLC (incorporated in the United States of America) to be the ultimate controlling party. Prior to this Zopa Group Limited was the ultimate parent and controlling party.

21. Share based payments

Employees receive equity option instruments (share options) of the parent as consideration for their services. These equity option instruments are granted by Zopa Group Limited. The Group operates six equity-settled share-based compensation plans, the 2005 Stock Incentive Plan, 2015 Stock Incentive Plan and the Non-Tax Advantaged Share Option Plan, together the Option Plans. Additionally, the Zopa Group Limited Company Share Option Plan (CSOP), the Zopa Group Limited Joint Share Ownership Plan (JSOP)and the Management Incentive Plan (MIP). All instruments vest over time, have a maximum life of 10 years and require a continuous relationship with the Group.

The fair value of the services received in exchange for the grant of the equity settled options is expensed, each year, based on the Company's estimate of shares that will eventually vest and the value of the options as at the date of grant.

Set out below are the range of exercise prices and the weighted average lifetime of outstanding share options held by employees of the Company at the end of the year

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Notes to the financial statements (continued)

	Option Plans (restated)	CSOP (restated)	JSOP (restated)	MIP	Total (restated)	Weighted Average Exercise Price
Balance at 1 January 2019	384,122	198,586	453,228	-	**1,035,936**	3.1941
Granted during 2019	-	274,733	22,224	-	**296,957**	5.9611
Exercised during 2019	-	-	-	-	-	0.8980
Lapsed during 2019	-	(11,634)	-	-	**(11,634)**	4.2479
Balance at 31 December 2019	**384,122**	**461,685**	**475,452**	-	**1,321,259**	**3.6703**
Granted during 2020	177,938	-	-	6,657,500	**6,835,438**	3.4089
Exercised during 2020	(85,566)	(300)	-	-	**(85,866)**	1.0070
Modified instruments	812,541	(812,541)	-	-	-	n/a
Employee transfer	361,184	791,227	705,873	-	**1,858,284**	2.9430
Lapsed during 2020	(45,596)	(440,071)	(7,635)	-	**(493,302)**	3.9726
Balance at 31 December 2020	**1,604,623**	-	**1,173,690**	**6,657,500**	**9,435,813**	**3.4127**
Range of exercise prices (£)	0.05-4.50	-	3.00-6.74	3.50	**0.05-6.74**	n/a
Weighted average remaining contractual life (years)	6.3	-	7.4	10.0	**9.0**	n/a
Exercisable options at 31 December 2020	1,253,182	-	1,011,370	319,625	**2,584,177**	2.8370

The table above reflects the details of the share options for the Bank alone. However, in the 2019 annual report and financial statements of the Bank the disclosed amounts related to the entire Zopa Group, which included Zopa Bank. This has been adjusted in the current year in order to comply with the requirements of IFRS 2. The adjustment to the 'Balance as of 31 December 2019' which related to share awards held by other group companies was 697k for Option plans, and 897k and 941k of CSOP and JSOP awards respectively.

For options granted during the year the weighted average fair value of the options at the measurement date was £0.4095.

For share options exercised during the year, the weighted-average share price at the date of exercise was £3.1696 (2019: £8.5900).

The share-based payment charge for the year materially represents the value of services provided to the Company by staff either employed directly by the Company or by other Group entities, whom are part of the equity settled plans disclosed above.

Employees of the Company are granted share options by the Parent company. Employees of the Company also provide services to other entities within the Group and therefore the Share Based Payment charge recorded in the income statement reflects the proportion of the services provided to the Company. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. A Black Scholes option pricing model has been used to calculate the fair value of the options granted or modified in the year.

	2020	2019
Expected volatility	30-42%	35%
Expected life (in years)	5	5
Weighted average share price	£3.1696	£8.5900
Exercise price	£3.50-4.50	£4.49-6.75
Expected dividends	None	None
Risk free rate	(0.1%) - 0.4%	0.4-0.6%

Expected volatility has been set based on the volatility of similar listed companies. Non-vesting conditions are factored into the calculation of fair value at the measurement date.

During the year, following the change of control in June, the CSOP scheme closed and eligible awards were replaced. The replacement instruments mirror the vesting schedules and size of the previous awards and are treated as a modification. The fair value of the original award and of the replacement are assessed at the modification date using the same approach as for new grants. Where the modification is beneficial the incremental fair value is recognised over the remaining vesting period. The incremental fair value of modified awards was £98k (2019: £nil)

The share-based payment charge in the year was £920k (2019: £698k).

22. Commitments and contingencies

At 31 December 2020, the Company had undrawn commitments to lend of £5,534k (31 December 2019: £39k). These relate to irrevocable lines of credit granted to customers (undrawn credit card limits).

Note 15 provides information on financial commitments where the Company is a lessee as per IFRS 16 leases. At the end of the reporting year, the future minimum lease payments under non-cancellable contracts outside the scope of IFRS 16 leases, are payable as follows:

	2020 £000	2019 £000
Purchase commitments		
Under 1 year	3,569	1,986
Between 1 and 5 years	5,807	2,691
Over 5 years	39	39
	9,415	**4,716**

23. Related parties

At 31 December 2020 £3,036k was due from Zopa Limited (2019: £623k), and £44k due from Zopa Group Limited (2019: £23k). Amounts have been settled in full post year end. A loan of £3,128k is due to Zopa Limited (2019: £4,848k). The loan is repayable on 31 December 2022, with an option to extend. Interest expense of £134k was recognised during the year in relation to this loan (2019: £132k). At year end, nothing was owed to Zopa Group Limited under an open credit facility with a final repayment date of 25 January 2024 (2019: £3,019k). Interest expense of £44k was recognised during the year in relation to this facility (2019: £20k). Both the loan and credit facility bear interest equal to the Bank of England base rate plus a 2% margin.

During the year revenue of £596k was generated from services provided to Zopa Group Limited (2019: £483k) and £15,518k (2019: £12,008k) from services provided to Zopa Limited. Zopa Limited charged service fees for administrative support to the Company in the same year of £6,904k (2019: £6,381k). Zopa Group Limited charged service fees for administrative support to the Company in the year of £125k (2019: nil).

Included within receivables above is an amount of £1,618k in relation to the fair value of an agreement held with Zopa Limited. It contains yield commitments from Zopa Limited based on the loans, and contractual rights, purchased from a P2P investor during the year. The agreement is classified as a derivative and is measured at fair value. It has been recognised in equity as a capital contribution with subsequent fair value movements through profit and loss. Further details on fair values can be found in note 25.

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Notes to the financial statements (continued)

During the year intangible assets, workforce and office equipment were transferred from Zopa Limited for a total consideration of £9,106k. As not all items met the recognition criteria for assets, a loss of £2,168k was recognised in equity in accumulated losses on transfer.

Loans and advances to customers includes a balance of £1k on credit cards issued to key management personnel. (2019: £2k).

Following the change in control of Zopa Group in June 2020 an existing customer and a supplier became related parties. Fee and Commission expense of £5k and Fee and Commission income of £81k were recognised during 2020. An outstanding balance of £1k was due to our related supplier and £14k was due from our related customer as at 31 December 2020 amounts are included in other liabilities and other assets respectively.

All transactions are at arm's length. There are no other related party transactions in relation to key management personnel. Key management personnel are Company Directors.

24. Financial Risk Management

(a) Credit risk

Credit risk arises from when the Company's borrowers or other counterparties default on their loans or obligations. The credit quality of the financial assets has been assessed and an allowance for expected credit losses ("ECL") recognised.

Counterparty credit risk arises from the Company's non-consumer counterparties with whom the Company has cash deposits. For deposits at commercial banks, the financial institutions considered need to have a credit rating above BBB-. The financial stability of counterparties is assessed prior to and at regular intervals during the relationship. Where available, the external credit rating of counterparties is monitored.

Maximum exposure to credit risk

The following table contains an analysis of the Company's maximum exposure to credit risk on financial assets.

	2020 £000	2019 £000
Cash at central bank	35,024	-
Cash and balances with other banks	22,189	2,577
Debt securities	12,243	243
Loans and advances to customers	238,066	16,580
Amounts due from other group undertakings	3,080	671
Other assets	1,096	1,807
Total	**311,698**	**21,878**
Undrawn credit facilities	5,534	39
Gross credit risk exposure	**317,232**	**21,917**
Less: expected credit losses	(12,676)	(208)
ECL for undrawn amounts	(180)	-
Net credit risk exposure	**304,376**	**21,709**

The Company holds collateral for loans and advances to customers under Hire Purchase agreements in order to mitigate credit risk. The collateral held is the asset, motor vehicle, which is subject to the hire purchase agreement.

Loans and advances to customers

The table below provides analysis of loans and advances to customer by product.

	2020	2019
	£000	£000
Gross loans and advances to customers	238,066	16,580
less: expected credit losses	(12,676)	(208)
Total loans and advances to customers	**225,390**	**16,372**
Amounts expected to be recovered more than 12 months after the reporting date	148,191	11,887

ECL allowance

The loss allowance recognised in the year is impacted by a variety of factors. The following tables explain the changes in the loss allowance between the beginning and the end of the annual period.

	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 year	**69**	**59**	**34**	**162**
Other movements with no Profit and Loss impact				
Write-offs	-	-	(19)	(19)
Transfer from Stage 2 to Stage 3	-	(9)	9	-
ECL allowance at 31 December 2019	**98**	**65**	**45**	**208**

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Notes to the financial statements (continued)

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £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 year	**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 at 31 December 2020	**9,649**	**2,075**	**952**	**12,676**

Additional impairment charge of £180k recognised in the year in relation to undrawn credit (2019: £nil)

The following table explains changes in the gross carrying amount of the portfolio of loans to help explain their significance to the changes in the loss allowance for the same portfolio of loans discussed above.

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross carrying amount at 1 January 2019	**6,853**	**310**	**13**	**7,176**
New financial asset originations/purchases	14,304	117	6	14,427
Repayments/derecognition of financial assets	(4,707)	(267)	(30)	(5,004)
Transfer from Stage 1 to Stage 2	(1,794)	1,794	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	524	(524)	-	-
Transfer from Stage 2 to Stage 3	-	(100)	100	-
Write-offs	-	-	(19)	(19)
Gross carrying amount at 31 December 2019	**15,180**	**1,330**	**70**	**16,580**

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Notes to the financial statements (continued)

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross carrying amount at 1 January 2020	**15,180**	**1,330**	**70**	**16,580**
New financial asset originations/purchases	253,600	4,639	189	258,428
Repayments/derecognition of financial assets	(33,653)	(2,954)	(172)	(36,779)
Transfer from Stage 1 to Stage 2	(12,222)	12,222	-	-
Transfer from Stage 1 to Stage 3	(229)	-	229	-
Transfer from Stage 2 to Stage 1	7,190	(7,190)	-	-
Transfer from Stage 2 to Stage 3	-	(701)	701	-
Transfer from Stage 3 to Stage 1	122	-	(122)	-
Write-offs	-	-	(163)	(163)
Gross carrying amount at 31 December 2020	**229,988**	**7,346**	**732**	**238,066**

The Company does not enter into any netting or offsetting arrangements with counterparties.

Internal rating scales

The credit quality of loans and advances to customers are analysed internally in the following tables:

31 December 2019	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Lowest risk	6,634	175	-	6,809
Mid-risk	5,058	526	25	5,609
Highest risk	3,488	629	45	4,162
Total	**15,180**	**1,330**	**70**	**16,580**

31 December 2020	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Lowest risk	129,009	734	101	129,844
Mid-risk	74,075	3,522	335	77,932
Highest risk	26,904	3,090	296	30,290
Total	229,988	7,346	732	238,066

Collateral held as security for financial assets

The Company holds collateral against loans and advances to customers for the auto hire purchase portfolio, in the form of motor vehicles. An analysis by loan-to-value (LTV) ratio as at loan origination is presented below. The value of collateral used in determining the LTV ratios has been estimated based upon the asset valuation performed at origination.

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Notes to the financial statements (continued)

31 December 2019	Stage 1	Stage 2	Stage 3	Total
	£000	£000	£000	£000
Greater than 100%	2,207	214	18	2,439
90% to 100%	5,625	702	47	6,374
80% to 90%	3,053	229	5	3,287
70% to 80%	1,929	82	-	2,011
Below 70%	2,366	103	-	2,469
Total	**15,180**	**1,330**	**70**	**16,580**

31 December 2020	Stage 1	Stage 2	Stage 3	Total
	£000	£000	£000	£000
Greater than 100%	5,347	510	79	**5,936**
90% to 100%	6,869	1,046	240	**8,155**
80% to 90%	3,439	362	85	**3,886**
70% to 80%	1,771	249	-	**2,020**
Below 70%	1,676	189	36	**1,901**
Total	**19,102**	**2,356**	**440**	**21,898**

The Company does not take physical possession of motor vehicles or other assets held as collateral and uses external agents to realise the value immediately after the loan default event, a voluntary surrender of the asset or a voluntary termination of the loan. Any surplus funds are returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations. No collateral is held in respect of retail credit cards or unsecured personal loans.

Forbearance and loan modifications

The Company 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 forborne loans 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 forborne loans was £287k (2019: £1k).

Credit Risk for Treasury assets

Credit risk exists where the Company have acquired securities or placed cash deposits with other financial institutions as part of our treasury portfolio of assets. The Company consider the credit risk of treasury assets to be relatively low. No assets are held for speculative purposes or actively traded. Certain liquid assets are held as part of liquidity management. At 31 December 2020 all treasury assets were in Stage 1. The table below sets out information about the credit quality of treasury financial assets:

	2020	2019
	£000	£000
Cash at central bank Rated AA-	35,024	-
Cash and balances with other banks Rated A+ to A-	22,189	2,577
High quality liquid assets included in the liquidity buffer Rated AAA	12,243	243

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. This is managed by ensuring that there is always sufficient liquidity to meet liabilities when due, both under normal and stressed conditions. The liquidity position is monitored on an ongoing basis.

Liquid assets

	2020 £000	2019 £000
Cash at central bank	35,024	-
Unencumbered cash and bank balances	22,101	2,493
UK Treasury bills	12,243	243
Total liquid assets	**69,368**	**2,736**

The table below presents the contractual maturities of the assets and liabilities on the balance sheet:

Liabilities 31 December 2019	**Up to 1 month £000**	**1 to 3 months £000**	**3 to 12 months £000**	**1 to 5 years £000**	**Over 5 years £000**	**Total £000**
Amounts due to other group undertakings	-	-	4,848	3,019	-	7,867
Lease liabilities	-	-	-	802	-	802
Other liabilities	853	1,587	-	103	-	2,543
Total	**853**	**1,587**	**4,848**	**3,924**	**-**	**11,212**

Assets 31 December 2019	**Up to 1 month £000**	**1 to 3 months £000**	**3 to 12 months £000**	**1 to 5 years £000**	**Over 5 years £000**	**Total £000**
Cash and balances with other banks	2,577	-	-	-	-	2,577
Debt securities	243	-	-	-	-	243
Loans and advances to customers	194	3	84	16,091	-	16,372
Amounts due from other group undertakings	646	-	-	-	-	646
Other assets	1,906	158	2,254	2,173	4,521	11,012
Total	**5,566**	**161**	**2,338**	**18,264**	**4,521**	**30,850**

Liabilities 31 December 2020	**Up to 1 month £000**	**1 to 3 months £000**	**3 to 12 months £000**	**1 to 5 years £000**	**Over 5 years £000**	**Total £000**
Amounts due to other group undertakings	-	22	-	3,106	-	3,128
Amounts due to customers	-	-	119,904	57,884	35	177,823
Lease liabilities	-	-	-	467	-	467
Amounts due to banks	11	-	-	-	-	11
Other liabilities	1,482	3,790	152	90	-	5,514
Total	**1,493**	**3,812**	**120,056**	**61,547**	**35**	**186,943**

Assets **31 December 2020**	**Up to 1 month £000**	**1 to 3 months £000**	**3 to 12 months £000**	**1 to 5 years £000**	**Over 5 years £000**	**Total £000**
Cash at Central Bank	35,024	-	-	-	-	35,024
Cash and balances with other banks	22,101	-	88	-	-	22,189
Debt securities	12,243	-	-	-	-	12,243
Loans and advances to customers	3,166	622	7,448	213,426	728	225,390
Amounts due from other group undertakings	1,462	-	1,618	-	-	3,080
Other assets	794	366	1,358	11,131	2,990	16,639
Total	**74,790**	**988**	**10,512**	**224,557**	**3,718**	**314,565**

The following is an analysis of gross undiscounted contractual cash flows payable under financial liabilities. The analysis has been prepared on the basis of the earliest date at which contractual repayments may take place.

Liabilities **31 December 2019**	**Up to 1 month £000**	**1 to 3 months £000**	**3 to 12 months £000**	**1 to 5 years £000**	**Over 5 years £000**	**Total £000**
Amounts due to other Group undertakings	-	53	4,973	3,330	-	**8,356**
Lease liabilities	23	46	208	562	-	**839**
Other liabilities	916	883	642	102	-	**2,543**
Total	**939**	**982**	**5,823**	**3,994**	**-**	**11,738**

Liabilities **31 December 2020**	**Up to 1 month £000**	**1 to 3 months £000**	**3 to 12 months £000**	**1 to 5 years £000**	**Over 5 years £000**	**Total £000**
Amounts due to other group undertakings	-	39	49	3,171	-	3,259
Amounts due to customers	169	323	122,172	60,459	37	183,160
Lease liabilities	18	36	161	346	-	561
Amounts due to banks	11	-	-	-	-	11
Other liabilities	1,482	3,790	152	90	-	5,514
Total	**1,680**	**4,188**	**122,534**	**64,066**	**37**	**192,505**

(c) Market risk

Market risk is the risk of a reduction in earnings, value or reserves caused by changes in the prices of financial instruments. The Company's market risk consists primarily of exposure to changes in interest rates. Interest rate risk is the risk that the net value of, or net income arising from, the firm's assets and liabilities is impacted as a result of changes to interest rates. Financial Assets 'are limited to fixed interest rated income from loans and advances to customers, UK Government T-Bills and Money Market Funds (MMF) and cash and balances with other banks. The Company has no financial assets or liabilities that reference LIBOR. The only source of borrowing relates to inter-company loans from other Group undertakings.

The impact of a two percentage point shift in the interest yield curve is as follows:

	2020 £000	2019 £000
2% shift up of the yield curve	(4,588)	(568)
2% shift down of the yield curve	5,017	612

(d) Capital risk and management

Capital risk is the risk that the Company has insufficient capital to cover regulatory requirements and/or support its growth plans. Financial performance is regularly reviewed by various committees in the business, focusing on the amount of regulatory capital needed. This is especially important as the business continues to expand. The process includes the monitoring of the annual budget and forecast process from which cash flow and capital assessments and projections are made.

Capital resources as at the reporting date were as follows:

	2020 £000	2019 £000
Common Equity Tier 1		
Share capital	192,319	54,160
Other reserves	4,324	1,786
Accumulated losses	(69,021)	(36,308)
Less intangible assets	(12,183)	(6,384)
Total Common equity Tier 1 capital (CET1)	**115,439**	**13,254**
Total capital resources	**115,439**	**13,254**

25. Financial instruments and fair values

The following table summarises the classification and carrying amounts of the Company's financial assets and liabilities:

31 December 2019	**At FVPL £000**	**At FVOCI £000**	**At amortised cost £000**	**Total £000**
Cash and balances with other banks	-	-	2,577	2,577
Debt securities	-	-	243	243
Loans and advances to customers	-	183	16,189	16,372
Amounts due from other Group undertakings	-	-	646	646
Other assets	-	-	11,012	11,012
Total financial assets	**-**	**183**	**30,667**	**30,850**
Amounts due to other Group undertakings	-	-	7,867	7,867
Other liabilities	-	-	3,345	3,345
Total financial liabilities	**-**	**-**	**11,212**	**11,212**

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Notes to the financial statements (continued)

31 December 2020	At FVPL £000	At FVOCI £000	At amortised cost £000	Total £000
Cash at central bank	-	-	35,024	35,024
Cash and balances with other banks	-	-	22,189	22,189
Debt securities	-	-	12,243	12,243
Loans and advances to customers	-	59	225,331	225,390
Amounts due from other Group undertakings	1,618	-	1,462	3,080
Other assets	-	-	1,096	1,096
Total financial assets	**1,618**	**59**	**297,345**	**299,022**
Customers' accounts	-	-	177,823	177,823
Amounts due to other Group undertakings	-	-	3,128	3,128
Derivatives held for risk management	97	-	-	97
Other liabilities	-	-	5,895	5,895
Total financial liabilities	**97**	**-**	**186,846**	**186,943**

There were no reclassifications of financial assets or liabilities during the year ended 31 December 2020.

Derivatives held for risk management relate to foreign currency forward contracts to hedge against foreign exchange risk with level 2 fair values based on hierarchy definitions below. Amounts due from other Group undertakings classified as FVPL relate to derivative with Zopa Limited with a level 3 fair value.

The Bank uses a fair value hierarchy which reflects the significance of the inputs used in making the measurements. There are three levels to the hierarchy as follows:

Level 1: quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). A Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads. Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market; and

Level 3: inputs for the asset or liabilities that are not based on observable market data (unobservable inputs). The derivative included in amounts due from other Group undertakings is level 3. A discounted cash flow model is used to estimate its value. Inputs to this model include the amortisation of the notional loan amounts, their expected life and the yield support rate, these are unobservable inputs that require management judgement. An expected life of 1.5 years and a yield support rate of 2.00% have been used for the value as at 31 December 2020. Sensitivity analysis has been performed on the expected lifetime and yield support rates with the results below:

Scenario 1 – Using an expected life of 1.25 years and a yield support rate of 1.50% the fair value of the derivative is £1.01m

Scenario 2 - Using an expected life of 1.75 years and a yield support rate of 2.00% the fair value of the derivative is £1.89m

The below table shows a comparison of the carrying amounts per the statement of financial position, and the fair values of those financial instruments measured at amortised cost:

	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
31 December	**£000**	**£000**	**£000**	**£000**
Cash at central bank	35,024	35,024	-	-
Cash and balances with other banks	22,189	22,189	2,577	2,577
Debt securities	12,243	12,243	243	243
Loans and advances to customers	225,331	234,094	16,372	15,410
Amounts due from other Group undertakings	1,462	1,462	646	646
Other assets	1,096	1,096	11,012	11,012
Total financial assets (at amortised cost)	**297,345**	**306,108**	**30,850**	**29,888**
Customers' accounts	177,823	177,823	-	-
Amounts due to other Group undertakings	3,128	3,128	7,867	7,867
Other liabilities	5,895	5,895	3,345	3,345
Total financial liabilities (at amortised cost)	**186,846**	**186,846**	**11,212**	**11,212**

All the fair values of financial assets and liabilities carried at amortised cost are considered to be Level 2 valuations which are determined using directly or indirectly observable inputs other than unadjusted quoted prices, except for loans and advances to customers which are Level 3.

Key considerations in the calculation of the disclosed fair values for those financial assets and liabilities carried at amortised cost include the following:

(a) Cash and balances at central banks

These represent amounts with an initial maturity of less than three months and as such, their carrying value is considered a reasonable approximation of their fair value.

(b) Cash and balances with other banks

These represent either amounts with an initial maturity of less than three months or longer term variable rate deposits placed with banks, where adjustments to fair value in respect of the credit risk of the counterparty are not considered necessary. Accordingly, the carrying value of the assets is considered to be not materially different from their fair value.

(c) Loans and advances to customers

For fixed rate lending products, the Company has estimated the fair value of the fixed rate interest cash flows by discounting those cash flows by the current appropriate market reference rate used for pricing equivalent products plus the credit spread attributable to the borrower. Expected credit losses as determined for IFRS 9 purposes are reflected in the fair value amounts.

(d) Other assets and liabilities

These represent short term receivables and payables and as such, their carrying value is not considered to be materially different from their fair value.

The Bank does not apply any accounting offsetting between financial assets and financial liabilities.

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Notes to the financial statements (continued)

26. Cash flows from operating activities

(a) Operating assets

	2020	2019
	£000	£000
Increase in loans and advances to customers	(209,018)	(9,246)
Increase in other operating assets	(2,681)	(1,593)
Total increase in operating assets	**(211,699)**	**(10,839)**

(b) Non-cash and other items

	2020	2019
	£000	£000
Depreciation and amortisation	4,316	1,876
Increase in derivatives held for risk	97	-
Increase in provisions	121	103
Other	475	1,318
Total non-cash and other items	**5,009**	**3,297**

27. Post balance sheet events

In March 2021, the Company issued 17.0m ordinary shares to Zopa Group Limited, for cash consideration of £17.0m.