ZOPA

FeelGood Money®

ZOPA BANK LIMITED
ANNUAL REPORT 2021

What's in this report

Strategic report

Financial statements

Award winning

Awards in 2021

Best Credit Card Provider, British Bank Awards

Best Personal Loans Provider, British Bank Awards

Personal Credit Cards Innovation, Finder Lending Innovation Awards

Best Online Savings Provider, Moneynet

Best Use of IT in Consumer Finance, FStech Awards

Top Tech Employer (2021), Hired

Best Internet Savings Provider, MoneyComms

Awards in 2022

Best Fixed-Rate Bond Provider; Best Short-Term Rate Bond Provider; Best New Savings Product, Savings Champion

Banking Brand of the Year, Moneynet

Who we are, and what our mission is

We make **money work better** for UK customers.

At Zopa, we believe that everyone deserves the chance to build a secure financial future. That's why our mission is to change the way money works for our customers and improve their financial health.

That mission has rarely been more critical – as the cost of living continues to rise into 2022 and beyond, millions of households will be impacted. By putting people in control of their finances and making money work better for them, we put people in control of their futures.

That's why we've chosen to start our journey by focusing on borrowing and savings products. Those two categories arguably have the most significant impact on consumers' financial health, so we've created products which better meet their needs for affordable, accessible and fairly structured credit, and easy, flexible and rewarding ways to save.

Trustpilot

4.8 score based
on 15k reviews
as at 31 December 2021.

Getting a fair deal as standard

Managing money is no sweat

Going beyond 'good enough'

Zopa Bank at a glance

Growing faster than ever

£851m
Gross new lending[1]

515,000
Total customers

380%
Gross new lending in 2021 YoY growth

92%
Total customers YoY growth

180,000
Credit cards issued in 2021

Delivering on our financial goals

£110m
Annualised revenue run-rate[2]

£65.2m
Total operating income

213%
Total operating income YoY growth

10.6%
Net interest margin

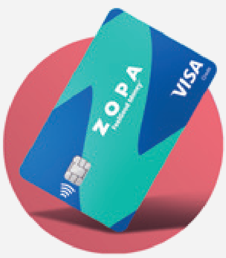
£34.2m
Loss before tax

All enabled by tech and data

74%
Instant decisions[3]

With strong customer advocacy

86%
Active card users



75+
Net promoter score[4]

1. Gross new lending excludes any P2P loans acquired by Zopa Bank in December 2021.
2. Refer to Alternative Performance Measures on page 120.
3. 74% of applications that were automatically approved without being referred to underwriting or were referred and went through an automated proof of identity journey. Blended figure for both unsecured personal loans and car finance in 2021.
4. Blended NPS as of 31 December 2021.


Your Borrowing Power
is good

Our heritage

2021

Zopa Bank becomes the main business, focused on expanding its range of products, following the exit from the retail P2P business

2020

Zopa Bank obtains its **banking licence** and **launches**
Credit Cards
Savings
Secured Auto
all on proprietary technology

2019

Borrowing Power launches, giving actionable insights that directly link behaviours to lending outcomes – a first for a UK lender

2017

Zopa starts providing instant decisioning on digital aggregators.

Today, 98% of applicants receive an instant, automated decision

2016-19

Three successful securitisations on behalf of institutional investors in 2016, 2017 and 2019, with the last of those being the first pure P2P securitisation globally to be rated AAA

2015

First mainstream lender to deploy machine learning models for credit decisioning

2005

World's first peer-to-peer (P2P) lender to connect borrowers and investors

Our products

Our mission is to change the way money works for our customers – so that they can improve their financial health.

Borrow

Unsecured Personal Loans (UPLs)

87 NPS

Car Finance

83 NPS

- Real and guaranteed rates
- Three minutes to complete an application
- 74% of customers receive an instant decision

Spend

Credit Cards

68 NPS

- Transparency on acceptance, rate and credit limit
- Credit Cushion for emergencies
- Real-time spend and balance alerts for builder segment

Save

Be in control

Fixed Term Savings

Award-winning way to save

Smart Saver

A hybrid approach for flexible savings

App

Rated 4.9 stars, the hub of Zopa

- Just six steps to apply
- Digital experience with market-leading interest rates

- 55% of customers maintain or improve their credit score

Chief Executive Officer's letter

In our first full year as a bank, we've grown our total operating income by 213% to £65.2m and our number of customers by 92%.

Jaidev Janardana
Chief Executive Officer

Zopa aims to make money work better for UK consumers. We chose to start this journey by focusing on the savings and borrowing needs of our customers. In a world of rising income inequality, high inflation and low savings rates, we believe that we can have the greatest impact on customers' finances by helping them to make better credit choices and giving them stronger returns on their savings.

Our strategy since inception has been to pioneer the use of technology, data, and artificial intelligence to provide fair and transparent products that solve key customer needs. We do this by being a market leader in online digital distribution to provide instant decisioning, with pre-approved offers, and fast disbursals. As more and more people are turning online to understand their borrowing or savings options, Zopa is well positioned to welcome customers with great value products at their fingertips, at speed. That's why over half a million customers used us last year.

Our most established product, UPLs, has continued to gain market share and far exceeded our pre-COVID-19 volumes to exit the year at an annual run rate of over £1.4bn[1]. Meanwhile, our car finance business more than quadrupled in monthly volumes during 2021, and we remain the only provider with a fully digital journey for secured car finance.

Our focus on innovation and execution enabled us to achieve growth in our newly launched products. We issued 208,000 new credit cards within 16 months of launch, with 180,000 in 2021. That 86% of our cards are active demonstrates strong customer advocacy and allowed us to win Best Credit Card Provider at the British Bank Awards in our first year. Our fixed-term savings product brought just under £1bn in deposits, and that success was also recognised through receiving multiple awards.

Our growth hasn't been achieved at the expense of credit quality. During the pandemic, we reacted quickly by adjusting our credit and pricing models immediately. As a result, we achieved stronger underlying credit performance than expected, demonstrating the power of our expertise in lending and data. COVID-19 has proven our artificial intelligence models to be reliable during periods of stress, so our pricing is more accurate than our competitors, and we achieve higher yields with lower loss rates. That allowed us to exit the year in a strong position.

A unique aspect that sets us apart from the industry is how we leverage data, technology and artificial intelligence in acquiring and underwriting customers. People in the UK tell us that, when looking for financial products, they value speed and certainty as much as value. All our products meet these needs through pre-approvals, real rates and instant decisioning through deep integration with distribution channels. Our proprietary platform handles more than 7m credit applications every month and drives 74% of personalised, instant and fully automated decisions for our customers.

As a result, in 2021, our total customer base grew to 515,000, and the consistently high net promoter score (NPS) of 78 from our customers shows their love for the Zopa experience.

1. UPL annualised run rate (disbursals) is based on November 2021 volumes due to December being seasonally lower.

Exiting the year on a very strong trajectory

In 2021, we increased our total operating income by 213% to £65.2m (2020: £20.8m). Our statutory loss after tax of £34.2m in 2021, reflects the fact that we have grown our balance sheet by 433%, resulting in an increased International Financial Reporting Standards (IFRS) 9 impairment charge for expected credit losses. We are exiting the year with a strong capital position, with £157m injected into the Bank by Zopa Group to continue supporting growth and innovation.

We also strengthened our people by welcoming over 300 more Zopians, including Graham Robinson and Helen Beurier, who joined our leadership team as Chief Risk Officer and Chief People Officer, respectively.

Supporting our people and our community

As we continue to work through the pandemic, I'm reminded of just how much Zopa has achieved during these most unusual of times. We were able to do that because of the support of our shareholders and the hard work of Zopians, who care deeply about our customers and our mission. To all our Zopians, I thank you for the commitment and passion you bring every day, and I thank our shareholders for the tremendous support.

In 2021, one of our top priorities was supporting the health and well-being of our people. During both this year and last, we've continued to operate a distributed working model which gives our employees the freedom to choose to work from home or from the office. Our employee engagement surveys show that this has been a successful way of working for Zopa.

Being there for our customers was also critical during COVID-19. We reacted quickly to the situation by moving our operations team to a work-from-home model to ensure service continuity, creating new customer journeys and forbearance options and integrating new Financial Conduct Authority (FCA) guidance. We rapidly deployed digital journeys to help customers understand their options and self-serve where possible. In this way, we were able to support over 30,000 customers during that difficult time. This period also gave me great confidence in our servicing capability as we scale to handle more customers than ever before.

I'm proud of the work we've done to enhance our community and social impact. We created a partnership with Code First Girls to nurture female talent in tech. We've also established a partnership with the Black Young Professionals Network to open more recruitment routes and ensure that we're reaching a diverse candidate pool: in 2021, 21% of our engineering hires were female.

Our ambition for 2022 is high

We exited the year in a very strong position, but the way ahead of us is still long. Over the next year, we're aiming to more than double our business in terms of total revenue and balance sheet size to create a profitable business. The UK consumer lending market is very large, with nearly £200bn in assets. However, customers are not being well served.

Nearly one in every two UK adults admit regularly worrying about money, and one in five UK adults have less than £100 in savings. UK banks continue to profit immensely from customer inertia, with customers paying on average £267 in interest after the promotional period expires on very long credit card 0% offers.

We're driven by the belief that we can continue to make a huge positive change in customers' lives. We're a bank like no other in the UK, and we're here to give customers the experience they deserve. By combining our lending experience with our technology and deep understanding of our customers, we can make money work better.

On behalf of the Board of Directors,

Jaidev Janardana
Chief Executive Officer

26 April 2022

Our business model and strategy

During 2021, we focused on meeting the borrowing and savings needs of our customers.

Those are the two main areas where we know can have the most impact on peoples' finances and where we can make the biggest difference. Our model allows us to differentiate ourselves from other neobanks by focusing on products with strong unit economics and driving profitable growth. Our deep expertise in credit risk management and experience in navigating a wide range of economic conditions allows us to do that rapidly, successfully and responsibly.

The support from Zopa Group this year gives us the capital and firepower to reach more customers and achieve further growth. Our products are on an upward trajectory driven by innovation and broader distribution strategy, including partnerships.

Our strategy focuses on further penetrating the UK consumer lending market by creating products that successfully meet customer needs. We then combine this with our lending expertise, technology and data to deliver a better product at a lower cost. As the unit economics of our lending is profitable, this means as we continue to scale our balance sheet, we will be able to deliver a profit and a sustainable business for the future.

At Zopa Bank we leverage on Zopa Group's competitive advantage built over the last 17 years across three core areas. These areas form the foundation of our business and our subsequent strategy.

How we do things differently

Lending expertise

Unlike other neobanks, Zopa Bank can leverage the Group's long lending history and through-the-cycle data, including from the financial crisis and the COVID-19 pandemic. By doing so, the Bank can build and scale its balance sheet with confidence, building on the Group's legacy of achieving positive returns for its borrowers. As a result, today the Bank is a market leader in data science, leveraging the Group's machine learning models for credit decisioning. This allows the Bank to make more nuanced decisions and price more accurately than other lenders, with more predictable loss rates.

In 2021, the Bank became first in the industry to use an open banking risk model to issue more credit cards. This was another example of how the Bank's expertise allows it to be more selective in its lending while expanding its acceptance region to customers who would've been mispriced or declined using more traditional credit models.

Leveraging the Group's capabilities, Zopa Bank is an expert in lending and has been able to scale successfully, serving over £851m of gross new lending in 2021 alone.

Use of technology and data

Our proprietary technology has been primarily developed in-house and allows us to offer market leading experiences in an efficient, scalable and resilient way. We now process 7m credit applications each month, and 74% of customers receive an instant, automated decision. As a result, we're one of the market leaders in open market digital distribution.

Our technology also provides us with control over the end-to-end experience and allows us to respond quickly to customer needs with innovative features. In Cards, we decided to build our own billing engine which not only lowers our costs but also means we can deliver on customer needs by providing features such as real-time balance updates.

With our product features all built in-house by our own technologists, our destiny is firmly in our hands.

Customer-centric culture

Meeting customer needs is what we do. We're laser focused on providing the best borrowing and saving experience in the market. To do this, we start with customer insight. Consumer research shows that ease, certainty and speed are the most important factors to consumers when choosing credit. As a result, our products are built around those principles.

In UPL and Cards, we provide instant decisioning with pre-approvals, real (guaranteed) rates and, in the case of Cards, a pre-approved initial credit limit. We know that consumers also find credit scores out of 1,000 confusing and difficult to understand. That's why we built the Borrowing Power feature in our app to provide a simple score that offers a more holistic view of the customer's finances. A credit score like no other that's linked directly to credit outcomes with pre-approved offers or showing consumers what their cost of credit would be if they took actionable steps to strengthen their credit score.

Across Zopa, innovation based around customer insight is core to our purpose and can be seen in all our products.

Combining those three critical ingredients is our recipe for success in differentiating us from the competition and in melding the very best of both legacy banks and modern neobanks into a compelling customer proposition.

Our business model and strategy continued

We use these foundations of our business to pursue our three key goals of equal importance

We'll grow sustainably while delivering strong customer outcomes

Over the next year, we're aiming to more than double our business in terms of total revenue and balance sheet size. We believe that's only achievable by delivering strong customer outcomes. All our products adhere to those principles, with short and transparent customer journeys, pre-approvals and guaranteed rates backed by a fast approval process leveraging soft credit checks with rapid disbursals. In 2022, we'll continue fuelling our growth by scaling our existing products, launching new adjacent products and leveraging our lending technology to support the growth through partnerships.

In 2022, we will also look to deepen the customer relationship with Zopa through providing seamless ways for our customers to explore and use other Zopa products.

We'll scale resiliently with an efficient cost structure

To be there for our customers, our business needs to be both resilient and efficient. The first part of our resilience comes from the strong credit discipline that we maintain. Throughout 2021, the performance of our assets was a testament to our best-in-class approach to credit risk, with performance being better than expectations. In 2022, we'll do more work with data and open banking to ensure that we maintain our strategic advantage in credit risk management. Secondly, to support our customers, we need to be operationally resilient. In 2021, we strengthened our information security practices and the resilience of our cloud infrastructure, improving our business continuity position. We also onboarded an outsourcing provider for our customer services to allow us to improve our cost structure as we scale.

In 2022, we'll look to diversify our funding sources to include our new easy access product, our existing fixed-term savings product and explore wholesale funding sources. We'll also look to improve efficiencies by deploying further automation through areas such as self-serve tools and doing more with technology and data.

We'll build an engaged, inclusive and diverse talent base

If we want to grow and serve more customers, we also need more Zopians to help us to achieve those big ambitions. We grew our talent base in 2021 to reach 514 (+30%) Zopians and hired a new Chief People Officer to lead our efforts. We've successfully adopted a remote working model and made significant progress on diversifying our workforce. That success is shown in our employee engagement survey, which this year returned 70%, our highest score since 2017. We'll continue building an inclusive and diverse culture to ensure that we have the very best Zopians during 2022.

514 permanent employees in 2021. Excludes eight contractors and 66 outsourced headcount.

Our people

We're proud of Zopa's unique culture, which has played a huge part in our growth story.

Our values drive collaboration and community to engage and inspire all our people in our journey to deliver a better, fairer financial future for the diverse communities we serve.

We care deeply about creating a supportive workplace where our people can be their authentic selves, release their potential to foster fresh thinking and develop new ways of serving our customers for the better. 2021 was a pivotal period for Zopa as we completed our first full year of operation as a bank.

Zopa is led by an experienced management team which, along with the ingenuity and dedication of our people, firmly positions it for successful execution of our longer-term growth strategy. The circumstances we found ourselves in 2021 have continued to be challenging for our people and our customers. Like many other businesses in our sector, Zopa has experienced unprecedented change driven by the effects of the pandemic and our own growth.

Today, we have a community of bold, brave and brilliant minds focused on Zopa's success at the centre of our ambitions. Employee engagement scores, at 70%, are at their highest levels since 2017. That's a significant accomplishment in the circumstances and a strong reflection of how well supported our people have felt in a time of ongoing adaptation to change.

With a rating of 4.1[1] out of 5 on Glassdoor:

- 9 out of 10 people would recommend Zopa as a great place to work;
- over 40% of our employees are women; and
- our high culture score (80%) illustrates the alignment of our people with our mission and values – putting our customers first, acting honestly and transparently, collaborating cross-functionally to deliver innovation.

Moving forward, our focus is to continue to develop and evolve the people practices that will enable us to attract and retain a balanced workforce that continues to uphold our values and act as a positive force for greater transparency, honesty and simplicity in the market.

The section on employee engagement on page 38 provides further examples of how we have engaged with our people.

9/10
People would recommend Zopa

Over 40%
Female employees

80%
High culture score

1. As at 31 December 2021.

We have a community of bold, brave and brilliant minds

Business review

Loans

Key highlights:

	2021	2020	Change
Gross new lending (UPLs and car finance)	**£851m**	£177m	+380%
Volume of new credit cards issued in the year	**180,298**	27,957	+545%
Number of credit card customers	**198,524**	27,411	+624%
Number of UPLs and car finance customers	**290,113**	236,069	+23%

Unsecured Personal Loans (UPLs)

We've been providing personal loans since 2005 and have developed a deep-rooted understanding of lending to become one of the biggest digital lenders in Europe. Our UPL product puts customers first by delivering ease of application, certainty and speed, which research shows to be the most important factors for consumers when choosing credit.

Through deep and seamless integrations with digital aggregators (such as ClearScore), we price customers in real time and offer pre-approvals with guaranteed rates. As a result, these aggregators, repeat customers and word of mouth make up most of our distribution. In 2021, we remained the market leader in online open market digital distribution and continued gaining market share from the incumbent banks.

We originated £744m (2020: £165m) of new UPLs in 2021, representing £579m of additional lending from the 2020 level. This was driven not only by a substantial recovery from COVID-19 as consumer demand improved but also our ability to expand and underwrite credit resilient lending accurately. We continued to grow monthly volumes, with November seeing the highest level of disbursals at £121m. The year ended with our best December on record despite it being a seasonally lower month for disbursals.

Car Finance

We launched our hire purchase car finance product at the end of 2017. We took our capabilities in UPLs, based on the principles of ease, certainty and speed, and applied them to a car finance market stuck in the past. Today, we're one of the only providers of an end-to-end digital journey. In car finance, customers find us through our direct-to-consumer model, either organically or through our partners such as brokers and dealers.

Car finance lending was a stand-out product in 2021, with volumes quadrupling across the year due to the digital acceleration caused by the COVID-19 pandemic. Car finance lending grew 788% year-on-year, with £107.6m originated in 2021 (2020: £12.1m). That growth is expected to continue in 2022.

Credit Cards

We launched our credit card product in 2020 to reach those customers who need credit but have been traditionally very poorly served by their incumbent providers. We've applied our technical sophistication to credit cards too – all our cards have transparency on acceptance, rate and credit limit when applying as well as features such as payment notifications and real-time balance updates. Our card is an app-only proposition and customers are typically looking to build their credit score. Our credit card proposition leverages our strong distribution capabilities in loans to attract customers.

By year end, our credit cards product had reached over 208,000 total cards issued to make us a top five issuer in the UK. By the end of 2021, that product had contributed £43.1m to net loans and advances to customers (2020: £3.4m).

Savings

Key highlights:

	2021	2020	Change
Value of deposits taken in the year[1]	**£835m**	£177m	+372%
Number of depositors	**26,205**	4,955	+429%
Average deposit per customer	**£36,939**	£35,888	+3%

1. This excludes re-savers and withdrawals.

Fixed-Term Savings

Our fixed-term savings product offers customers with over £1k to deposit features such as attractive rates, an easy online journey and only a few minutes needed to complete an application.

Our fixed term savings product attracted £835m in 2021 and provided a stable source of funding for our lending.

Smart Saver

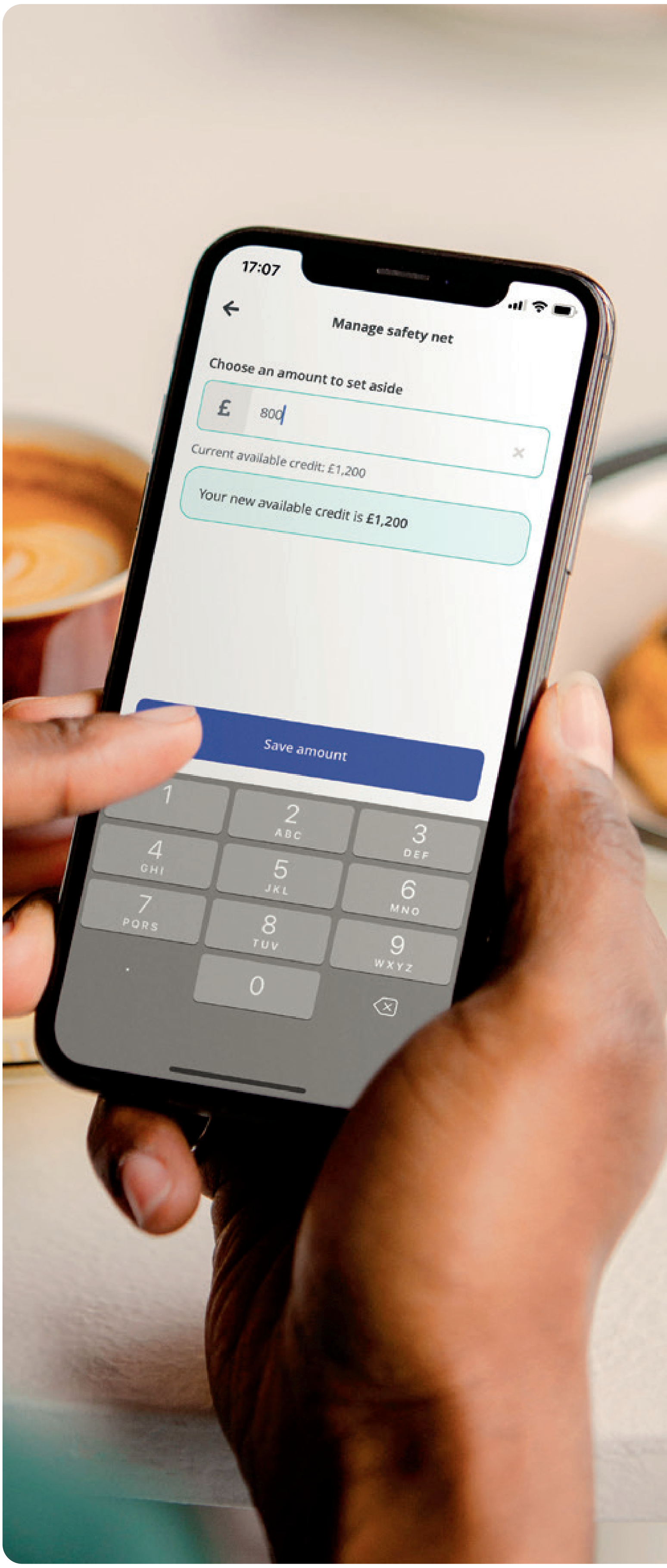
Launched in Beta in December 2021, Smart Saver is a new, innovative easy access product, providing customers with access to different 'pots' of their choosing, at a frequency and interest rate that works for them. Our Smart Saver is an app-only proposition aimed at younger savers who are looking to build their savings for specific goals such as a housing deposit.

With its full launch early in 2022, Smart Saver is expected to provide a valuable, diversified funding source for the business which will lower our cost of funding relative to fixed-term savings.

App, Including Borrowing Power

From our app, customers can access useful financial management tools, such as Borrowing Power to improve their credit, a debt calculator, products and self-serve tools. Today, 60% of customers actively use the app.

The app continues to become a powerful origination source for the business. On average, in 2021, 10% of new loans in UPL were originated through the app. This feature was recently deployed for our card product and is expected to scale over the next year.



Financial review

In 2021, our net loans on balance sheet grew to £1.2bn, funded mainly through £968m retail customer deposits.

Steve Hulme
Chief Financial Officer

The financial review provides a summary of our results and performance. In assessing financial performance, we use a range of key performance indicators (KPIs) and alternative performance measures (APMs)[1] focusing on growth, financial strength, cost management and resilience.

The financial year saw the Bank capitalising on strong customer growth, investor confidence, a strong economic rebound and newly raised capital to grow its balance sheet. That, coupled with investment in technology to support operational efficiency and robust cost control, provides the foundations for future growth. Relative to 2020, the Bank saw an increase in net interest income and balance sheet size, all driven by higher disbursals. This meant the Group also had to grow its funding sources, predominantly retail customer deposits significantly over the year. Zopa Group's announcement of the closure of the P2P lending business led to Zopa Bank purchasing £346m of loans from retail investors on the P2P platform in December 2021. This contributed to accelerating the growth in the Bank's net loans on balance sheet to £1.2bn at year end.

In 2021, Zopa Group also raised £240m of capital from new and existing investors, with £220m raised in October 2021, our largest capital raise to date. In total £140m of the capital raised was injected into the Bank in 2021. This will be used to support growth in lending volumes including new products. As a result, we're in a strong capital position and are able to support planned growth until 2023 with the equity available. As well as any future equity raises, we can also support growth through optimising our capital resources. Overall, this forms a solid foundation for the future growth and success of the business.

1. APMs and key ratios are disclosed on page 120.

£65.2m
Up 213%
Total operating income

£1.2bn
Net loans

5x
Deposit growth

Our total operating income reached £65.2m

Bank	2021	2020	Change
Interest income	**£61.1m**	£7.2m	+749%
Interest expense	**£5.5m**	£0.6m	+817%
Net interest income (NII)	**£55.7m**	£6.6m	+744%
Fee and commission income	**£2.4m**	£0.2m	+1,100%
Fee and commission expense	**£3.3m**	£2.1m	+57%
Net fee and commission expense	**£0.8m**	£1.9m	-58%
Total operating income	**£65.2m**	£20.8m	+213%
Net interest margin (NIM)	**10.6%**	10.3%	+30 bps

Total operating income of the business improved, reflecting the exciting range of products we have to offer our customers. All lending products contribute positively from day one by exhibiting strong unit economics and fast payback.

2021 saw growth in all our products as more customers chose Zopa to meet their borrowing and saving needs. As a result, total net interest income increased year-on-year to £55.7m in 2021 from £6.6m in 2020. That reflected the growth in our interest-bearing assets, primarily through net loans rising to £1.2bn in 2021 from £225m in 2020. This reflects our best-in-class distribution, products and service, which continue to attract increasing numbers of new customers and product growth. In line with the growth of our fixed-term savings product, which scaled by 444% over the course of the year, interest expense increased to £5.5m in 2021 from £0.6m in 2020. Our competitive rates mean more customers choose to save with us, allowing us to fund our lending at a very low cost of funds. Those trends resulted in a year-on-year increase in our net interest margin to 10.6% in 2021 from 10.3% in 2020. That increase was in part due to the Bank continuing to access low-cost funding while our new lending was at higher-than-average pricing during the first half of 2021 to account for expected increases in credit risk that at the time had not materialised.

Our net fee and commission expense decreased to £0.8m in 2021, down from £1.9m in 2020, as commission costs were offset by increased fee income from credit cards. Our strategy continues to be focused on interest-bearing assets, so we expect most of the Bank's revenue to continue to be from growth in net interest income as our products scale. Fee and commission income for the Bank mainly comes from the very limited fees on our lending products such as cash withdrawals from ATMs or late-payment fees. Going forward, the Bank's fee income will also be impacted by a reduction in intercompany fees for the provision of operating services to Zopa Limited. However, further supplementary fee and commission income may be earned from partnership activities, which are a key pillar of our future strategy.

Loans and advances grew to £1.2bn

Bank	2021	2020	Change
Loans and advances to customers	**£1.2bn**	£225m	+433%
Cost of risk	**8.0%**	19.3%	-1,130 bps

2021 saw growth of 433% in our loan assets on balance sheet, capitalising on our bank launch to offer our products to more customers than ever before. Loans and advances to customers increased to £1.2bn, from £225m at the end of 2020, as part of the Bank's strategy to scale the balance sheet. As part of the P2P lending platform closure the Bank purchase of £346m of loans from retail investors in December 2021 substantially accelerating balance sheet build. This allowed Zopa to offer a smooth exit experience to P2P retail investors while also enhancing our longer-term profitability profile, by moving more loans to the Bank's balance sheet.

Financial review continued

Deposits saw 5x growth in 2021

Bank	2021	2020	Change
Deposits from customers	**£968m**	£178m	+444%
Cost of funds	**1.1%**	1.2%	-10 bps
Loan-to-deposit ratio	**121%**	127%	-600 bps

The Bank used its attractive pricing and strong brand to attract a further £835m into its fixed-term savings product. Our one-to-five-year fixed-term product offers some of the most competitive rates on the market. Those deposits have an average term of around 1.5 years. As our UPL product also has an average duration of around 1.5 years, minimal asset and liability mismatch risk is ensured.

Since its launch, the Bank has developed a strong understanding of price elasticity in the deposit market and is therefore able to price accurately based on its funding needs. During 2021, the Bank was able to decrease its cost of funds slightly to 1.1%. Each new saver deposits an average of £37k, which creates very low acquisition costs per unit of funding. The Bank will support efficient funding costs further in 2022 through the launch of an innovative easy access product and continue to complement its funding mix using low-cost central bank funding.

At the end of 2021, the loan-to-deposit ratio was 121% (2020: 127%), which was in line with the strategic plan adopted by the Bank.

Operating expenses increased to support growth but cost to income is falling rapidly

Bank	2021	2020	Change
Operating expenses	**£57.6m**	£38.4m	+50%
Net interest, fee and commission income	**£54.8m**	£4.7m	+1,066%
Cost-to-income ratio	**105.1%**	817.7%	-71,260 bps

Total operating expenses increased during the year by 50% to £57.6m, reflecting the growth of the business. The main drivers were an increase in staff costs to support growth, as more Zopians joined us in 2021 than ever before, and further investment in brand and marketing. The Bank continues to focus on delivering cost efficiency balanced against growth of the business. In 2021, to reflect new ways of working, we reduced our office space in central London. We also launched, with our outsourcing partner for customer services, operations in South Africa which will fully scale during 2022. To ensure that we can provide outsourced human-based customer service at scale, the Bank will always ensure any cost initiatives retain strong operational resilience and high levels of customer service.

Over 2022, we expect our automated underwriting, proprietary technology platforms and digital servicing to contribute to a rapid fall in the cost-to-income ratio in line with best-in-class peers. That will be driven by revenue growth following expansion of our balance sheet, with costs only growing gradually to drive that growth.

Expected Credit Losses (ECL) increased in line with our balance sheet growth

Bank	2021	2020	Change
ECLs charge (£m)	**£41.8m**	£12.8m	+227%
ECLs allowance (£m)	**£53.4m**	£12.7m	+320%
Coverage ratio (%) (including POCI loans)	**4.4%**	5.3%	-90 bps
Cost of risk (%)	**8.0%**	19.3%	-1,130 bps

The ECLs charge for the year was £41.8m (2020: £12.8m) due to 433% growth in our loan assets. IFRS 9 requires that we immediately recognise ECLs for newly originated assets. In a fast-growing balance sheet scenario, this results in a large impairment building through the income statement.

The ECLs allowance at year end was £53.4m (2020: £12.7m), which represents a coverage ratio of 4.4% of our total gross loans and advances to customers (2020: 5.3%). That improved coverage ratio was driven by better-than-expected current macroeconomic conditions and forward-looking macroeconomic scenarios.

Our cost-of-risk ratio was impacted by the immediate recognition of credit losses, as noted above, rather than actual write-offs. The ratio reduced during the period to 8.0% (2020: 19.3%), and we expect it to continue to reduce over the next year.

Net operating income improved in 2021 as the Bank scaled

As a scaling business focused on balance sheet growth, the Bank's profitability is materially impacted by a build-up of ECLs. As we grow our balance sheet, we're required to recognise ECLs immediately upon origination, while only recognising interest income on those loans each month over the term of the loan. The more we grow our balance sheet, the more credit impairments our income statement has, thus impacting profitability. The net operating income excludes credit impairments and thus removes the impact of this accounting adjustment. In 2021, net operating income improved significantly while overall losses increased because of higher impairments from the growing balance sheet.

Bank	2021	2020	Change
Net operating income/(loss)	**£7.6m**	(£17.6m)	+144%
Loss before tax	**£34.2m**	£30.6m	-12%
Loss after tax	**£34.2m**	£30.5m	-12%

Financial review continued

Capital position remains very strong

Bank	2021	2020	Change
Risk-weighted assets (RWAs)	**£1,059.3m**	£390.5m	+171%
Common equity tier 1 ratio (CET1)	**23%**	29%	-600 bps
Leverage ratio	**20%**	38%	-1,800 bps

The Bank's capital position remained strong throughout the year. In March 2021, Zopa Bank received investment of £17m from its parent entity (out of the £20m received into Zopa Group). In October 2021, Zopa Group signed a further £220m capital raise with new and existing investors. This was invested in three tranches, with two of those tranches (total of £160m) completed in 2021. Of this, £140m was received into Zopa Bank in 2021. The remaining third tranche (£60m) was received into Zopa Group in February 2022. This makes us extremely well capitalised for the future. Our capital runway now extends through to 2023 at expected growth levels, and this can be extended further through additional capital optimisations. At year end, the common equity tier 1 (CET1) ratio stood at 23% (2020: 29%) despite the strong growth in risk-weighted assets of 171%. The Bank measures capital resources in line with regulatory requirements.
To manage capital resources appropriately, reports on the current and forecast level of capital are considered by the Board, the Board Risk Committee (BRC) and the Asset and Liability Committee (ALCO). That includes conducting stress testing on an ongoing basis. The internal capital adequacy assessment process (ICAAP) is used to assess the adequacy and efficiency of our capital resources required to support our business model and the key stress assumptions that drive that requirement.

Liquidity

Bank	2021	2020	Change
High Quality Liquid Assets (HQLA)/ Deposit Ratio	**21%**	27%	-600 bps
Net Stable Funding Ratio	**136%**	152%	-1,600 bps
Liquidity Coverage Ratio	**9,360%**	13,597%	-423,700 bps

The Bank maintained a strong liquidity position throughout the year against both regulatory metrics and internal risk appetite. That included £191m (2020: £35m) in the Bank of England reserve account at year end, providing same-day access to liquidity should it be required. Given the nature of the Bank's balance sheet, the Bank maintains and monitors a minimum liquid assets-to-deposit ratio, as well as the regulatory metrics, the liquidity coverage ratio and net stable funding ratio, as this currently provides a more useful indicator of the Bank's liquidity position. Liquidity metrics at the end of 2021 were significantly above internal risk appetite, which itself is well above regulatory minimums. The reductions from year end 2020 reflected the maturing balance sheet and improved optimisation of our liquidity position, in line with our plans when we launched the Bank. The Bank regularly stresses its liquidity position against several scenarios. The internal liquidity adequacy assessment process (ILAAP) provides an assessment of the adequacy of the Bank's liquidity resources and of the key assumptions that drive that requirement.

Looking ahead to 2022

Despite being launched at the height of lockdown, Bank performance to date has been according to plan and remained resilient during the pandemic. Our trajectory to date has been impressive and continues to be so as more customers than ever before choose Zopa to manage their borrowing and saving needs.

However, we're not complacent. During 2022, we'll be looking to do even more for our customers and, to do that, we'll need to invest more in our people and our technological capabilities.

Our priority over the next year will be to keep working on building a financial profile that will continue to be attractive to investors and the wider market. Zopa is also well positioned to deal with economic uncertainty and competitive pressures as proven through its long track record of lending. Zopa's lending expertise is built upon an outstanding and experienced team of people who leverage our data and technology, allowing us to respond to market conditions fast and accurately, as proven most recently during the pandemic. For that reason, I'm confident about the path ahead and look forward to continuing to build the best place for money over the next year.

Steve Hulme
Chief Finance Officer

26 April 2022

Empowering people to FeelGood about their money

Board of Directors

Peter Herbert

Appointed: 22.02.2018

Roles: Chair of the Zopa Bank Board

Committees:

Peter has 40 years' experience in the financial services industry. As former CEO at Tandem he knows a thing or two about creating a new bank. He's also held many leadership roles at Barclays including Group Head of Strategy and MD of Barclaycard. Plus, he was CEO of the global mortgage, consumer lending and credit cards business at GE Capital. Peter is also on the board of Bank of Ireland in the UK.

Gaenor Bagley

Appointed: 13.12.2018

Roles: Independent non-executive director, Chair of the Audit Committee, Chair of the Nomination and Remuneration Committee

Committees:

Gaenor has 30 years' experience in the professional services industry. She's held a variety of leadership and board positions, including five years on the PwC UK board as Head of People, followed by 18 months as Head of Corporate Purpose for PwC UK. Gaenor currently holds a range of other non-executive appointments, including with Octopus Titan VCT plc and the National Audit Office.

Richard Goulding

Appointed: 30.01.2018

Roles: Independent non-executive director, Chair of the Risk Committee

Committees:

As we look to scale our business, having guidance and oversight from experienced risk experts is critical. Richard provides us with this. He spent 10 years at Standard Chartered Bank as Group Risk Officer. Before Standard Chartered, Richard held executive positions at Old Mutual Financial Services, UBS Warburg/SBC Warburg, Astra Holding plc, Bankers Trust Company and Midland Bank Group. Richard is also on the board of Bank of Ireland Group.

Paul Cutter

Appointed: 30.01.2018

Roles: Independent non-executive director

Committees:

Paul joined the Audit Committee in January 2022.

A technology leader, Paul is the Chief Information Officer at Flutter Entertainment plc, where he sets the global strategic direction for over 5,000 technologists. His role is to share technology and expertise between the different brands in the Flutter group to deliver a better experience for customers. He's also spent nearly 10 years in senior tech roles at BSkyB and AOL.

Gordon McCallum

Appointed: 12.01.2022

Roles: Independent non-executive director

Committees:

As the architect of Virgin Group's strategy from the mid-1990s until 2012, Gordon brings over four decades' worth of professional, executive and non-executive experience to Zopa.

He was responsible, in particular, for the creation and development of Virgin's Mobile and Money businesses around the world. Prior to that, he held roles at McKinsey and Baring Brothers, and non-executive roles across many Virgin companies.

He is currently a Senior Adviser to private equity group, Searchlight Capital and a Non-Executive Director at a number of companies, including Argent Energy (a major European producer of biodiesel from wastes) and Global Risk Partners (one of the UK's leading independent insurance intermediaries).

Michael Woodburn

Appointed: 12.01.2022

Roles: Independent non-executive director

Committees:

Michael is the Chief Data Officer at ClearScore and is also working with the VC consultancy, Blenheim Chalcot. Previously, Michael was Chief Executive Officer at Oakbrook Finance, Chief Marketing Officer and Chief Operating Officer in a 14-year career at Capital One UK, and also a manager at Schroders.

The above are the Directors who held office as at 26 April 2022.

The list of Directors who resigned from office is on page 57 of the Directors' Report.

Giles Andrews, OBE

Appointed: 12.01.2022

Roles: Co-founder and non-executive director

Committees:

Giles was one of five people who dreamed up Zopa in 2004. By 2007 he was CEO and became Chair in 2015. Giles resigned as Chair in 2019 and became a non-executive director at Zopa.

Giles acts as non-executive Chair at MarketFinance, the FinTech platform where businesses have raised over £2.5bn in working capital and carwow, the marketplace with over 7% of the UK new car retail market. He is an independent non-executive director and member of the risk, remuneration and transformation committees of Bank of Ireland Group plc in Dublin and Chair of the Governing Council of the Centre for the Study of Financial Innovation (CSFI), an independent think tank where financial services professionals and observers can share ideas about the challenges and opportunities facing the sector.

Scott Christopher Jones

Appointed: 12.01.2022

Roles: Non-executive shareholder director

Committees:

Chris is a director of the Zopa shareholder IAG Silverstripe, an investment arm of IAG Capital Partners. Chris leads the acquisition and oversight of IAG Capital Partner's European portfolio companies. Previously Chris was with Sherman Financial Group and Credit Suisse. He served for 14 years on the Boards of Credit One Bank NA, a multi-billion Dollar US bank specialising in credit cards and Consubanco SA, a Mexican bank focused on consumer lending.

Nick Aspinall

Appointed: 12.01.2022

Roles: Non-executive shareholder director

Committees:

Nick is an investment director of the Zopa shareholder IAG Silverstripe, an investment arm of IAG Capital Partners. Nick is responsible for IAG Capital Partners' legal and regulatory affairs, corporate structuring and governance of its European portfolio. Previously Nick was a partner with Cambridge Place Investment Management Group and at Aon and Norton Rose Fulbright. Nick is a European Board Member for Kroll Bond Rating Agency.

Andrew Cassin

Appointed: 09.02.2022

Roles: Non-executive shareholder director

Committees:

Andrew is a director in the Investment Risk group at SoftBank Investment Advisers. Prior to joining SoftBank three years ago, Andrew was in the Prime Brokerage risk team at Bank of America.

Jaidev Janardana

Appointed: 31.03.2017

Roles: Bank CEO and executive director

Committees:

Devoted to creating simple and fair financial products and services, Jaidev joined Zopa Group in October 2014 and became the CEO of Zopa Bank in 2019. Since then, Zopa has secured its banking licence to offer its customers a wider range of financial products and enjoyed significant customer, balance sheet, and revenue growth.

Before Zopa, Jaidev held senior leadership positions for Capital One Europe Ltd including Chief Credit Officer and Chief Marketing Officer and he has almost 20 years of experience in consumer financial services and lending.

Stephen Hulme

Appointed: 30.03.2021

Roles: Bank CFO and executive director

Committees:

Steve leads Zopa's finance and legal teams. Steve joined Zopa at the start of 2018, having spent over two decades in financial roles with a range of innovative financial services companies. Prior to joining Zopa, Steve was Chief Finance Officer at Tandem Bank, and previously he was Chief Finance Officer of PayPal's Credit division. Prior to PayPal, Steve spent 14 years with Capital One, completing his tenure there as Chief Finance Officer, International. More recently, Steve led Zopa's largest fundraise to date.

Key

- Audit Committee
- Risk Committee
- Nomination and Remuneration Committee
- No appointments to Board committees

Our executive team

Jaidev Janardana

Chief Executive Officer

Devoted to creating simple and fair financial products and services, Jaidev joined Zopa Group in October 2014 and became the CEO of Zopa Bank in 2019. Since then, Zopa has secured its banking licence to offer its customers a wider range of financial products and enjoyed significant customer, balance sheet, and revenue growth.

Before Zopa, Jaidev held senior leadership positions for Capital One Europe Ltd including Chief Credit Officer and Chief Marketing Officer and he has almost 20 years of experience in consumer financial services and lending.

Steve Hulme

Chief Finance Officer

Steve leads Zopa's finance and legal teams. Steve joined Zopa at the start of 2018, having spent over two decades in financial roles with a range of innovative financial services companies. Prior to joining Zopa, Steve was Chief Finance Officer at Tandem Bank, and previously he was Chief Finance Officer of PayPal's Credit division. Prior to PayPal, Steve spent 14 years with Capital One, completing his tenure there as Chief Finance Officer, International. More recently, Steve led Zopa's largest fundraise to date.

Helen Beurier

Chief People Officer

Helen has joined Zopa as its first Chief People Officer. Helen leads the design and delivery of Zopa's people experience, strengthening Zopa's unique culture as we grow our team and expand our strategic capabilities, solidifying our leading position as a key competitor in the banking sector.

Helen held progressively senior HR Executive roles at household names M&S, PepsiCo and GSK, leading the delivery of HR and transformational change initiatives across the globe. Helen has also partnered with founders and investors to develop people strategies for accelerated growth in the challenger brand space.

Merve Ferrero

Chief Strategy Officer

Merve leads strategy, savings products, partnerships and operational resilience.

She has over 15 years' experience in strategy, business development and equity markets. Before joining Zopa in 2015, Merve was in China building and scaling tech companies and previously, in Istanbul in investment banking at both Credit Agricole, and Credit Suisse.

Graham Robinson

Chief Risk Officer

With over 20 years' experience of leadership across credit risk, operations and digital, Graham leads on all risk management at Zopa as its Chief Risk Officer. Prior to Zopa, Graham worked at Capital One for over 18 years across various senior risk positions, and more recently built the credit risk management capability at Monzo Bank to support its growing lending operation.

Graham ensures that Zopa's risk management differentiates it from its peers and develops and scales at pace with its operations.

Clare Gambardella

Chief Customer Officer

Clare joined Zopa in 2018. She is responsible for growing Zopa's brand and ensuring outstanding customer experience. Clare leads the Zopa brand marketing team, operations, product design and product tribes focused on customer channels such as App and Web.

Clare has close to 20 years of experience across multiple industries. Prior to Zopa, Clare was the Group Chief Marketing Officer at Virgin Active overseeing brand and marketing for the group's international health club network. She began her career at Procter and Gamble and has also worked in Strategy Consulting at The Boston Consulting Group

Tim Waterman

Chief Commercial Officer

Tim leads Zopa's lending products which include unsecured personal loans, credit card and secured car finance. He is responsible for customer acquisition, credit and fraud strategy, pricing and the growth of the lending products.

Tim has over 16 years' experience in consumer lending businesses specialising in data, analytic and technology led innovation. Before Zopa, Tim was Chief Marketing Officer at Lendable where he led the growth of its unsecured personal loan product and evaluation of new product opportunities. Prior to Lendable, Tim was Chief Analysis Officer at Oakbrook finance. Tim started his career at Capital One.

Corporate governance

Governance structure

The Bank is a private limited company and, given its size, it isn't currently required to disclose compliance with any corporate governance codes. However, the Board of Directors recognises that as a public interest entity authorised by the PRA and regulated by the FCA and the PRA, the Bank should adhere to the highest standards of corporate governance. Without voluntarily applying and disclosing compliance with the principles of the UK Corporate Governance Code (the Code) (as published by the Financial Reporting Council (FRC) and available on its website at www.frc.org.uk), the directors are committed to following the Code's principles in a manner that's proportionate and practical given the company's current circumstances and future plans.

Board roles and responsibilities

The Board's responsible for ensuring that the company delivers against its financial and business objectives, as set out in its Business Plan, with regard to the risk appetite and interests 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 comply 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 while ensuring that its culture, values and behaviours meet or exceed the standards required of a leading, regulated bank.

Chair and Chief Executive Officer roles

The roles of Chair of the Board and of Chief Executive Officer are held by separate individuals. The roles are defined clearly in writing and have been agreed by the Board.

Company Secretary

Directors have access to the Company Secretary's advice and services at all times, as well as independent professional advice when needed, to assist them in carrying out their duties.

Board and executive committees

The Board has three committees: Audit, Risk, and Nomination and Remuneration. The committees work within their remits to support and advise the Board to facilitate the execution of the corporate vision, goals, strategy and culture. The committees' written terms of reference include their objectives and the authority delegated to them by the Board. The Board and its committees have access to independent expert advice and the services of the Company Secretary. The Chair of each committee reports to the Board. The constitution and terms of reference of each committee are reviewed annually to ensure that the committees are operating effectively. Any changes considered necessary are recommended to the Board for approval.

The Board delegates daily management responsibility for the Bank to the ExCo, which meets monthly. The ExCo is responsible for developing the business and delivering against a Board-approved strategy, putting in place effective monitoring and control mechanisms, and setting a framework of reporting to the Board.

Board and Board level committees

Board of Directors

- **Board Risk Committee**
- **Board Audit Committee**
- **Board Nomination and Remuneration Committee**

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

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

	No of individual	
Composition of the Board as at:	26.04.22	31.12.21
Number of independent directors	6	4
Number of non–independent directors	6	2
of which executive directors	2	2
Total number of directors	**12**	**6**

Management committees

Board and Board Committees

- **Executive Committee**
- **Risk Management Committee**
- **Asset & Liability Committee**

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

Corporate governance continued

The Board and its activities

The Board includes individuals with a wide range of relevant skills and experience. The directors consider the balance of skills and experience to be appropriate to the company's requirements. The balance between executive and non-executive directors allows the Board to exercise objectivity in decision-making and proper control of the business. Each Board member has access to all information relating to the Bank, the advice and services of the Company Secretary (who is responsible for ensuring that Board procedures are followed) and, as required, external advice.

The Board has reviewed the structure, size and composition of the Board, and evaluated the balance of skills, knowledge and experience, as well as the membership of the various Board committees and the expected time commitment throughout the year.

The Board has reviewed the criteria for the independence of directors and is satisfied with the designation of those serving on the Board. The terms of appointment of the non-executive directors specify the amount of time they're expected to devote to the company's business.

Summary of Board activities in 2021

Area of focus	Actions taken by the Board and outcomes
Brand and Customer	• Considered the needs of customers and a customer life cycle, and received customer call listening updates • Approved further investments in consumer marketing via television ads, podcasts and social media platforms
Regulatory Matters	• Monitored progress against actions to be completed as part of the regulatory supervisory plans for the Bank • Considered the areas of focus set out in applicable PRA Supervisory Statements • Approved the Bank's ICAAP and ILAAP
Strategy	• Approved the outsourcing partner for customer service operations • Approved new product initiatives including the launch of the Smart Saver account • Approved the purchase of retail portfolios to support long-term growth • Approved the annual budget
Governance	• Approved the alignment of board membership across the group entities to facilitate compliance with Zopa Group Limited's responsibilities as a financial holding company of Zopa Bank Limited under the new CRD V regulations • Approved and monitored progress against the action plan to address the findings from the Board evaluation • Approved the annual Board training plan

Attendance	Total meetings attended/meetings eligible to attend
Peter Herbert (Chair)	11/11
Paul Cutter	10/11
Gaenor Bagley	11/11
Richard Goulding	11/11
Jonathan Hogan (resigned 31.12.2021)	8/11
Jaidev Janardana	11/11
Steve Hulme (appointed on 30.03.2021)	9/9

The Board Risk Committee and its activities

The Board Risk Committee (BRC) has responsibility for, among other things, advising the Board on the Bank's overall risk appetite and strategy. The BRC reviews the Bank's risk assessment processes and methodology and its capability for identifying and managing new risk, alongside advising on proposed transactions and reviewing reports on any material breaches of risk limits. The BRC is also responsible for monitoring and reviewing the effectiveness of the risk function and the capital adequacy requirements of the Bank on an ongoing basis. The other key areas that the BRC oversees are:

- Board risk appetite;
- credit risk;
- operational risk;
- conduct, risk;
- capital risk;
- liquidity risk;
- market and interest rate risk;
- stress testing and capital requirements;
- recovery and resolution planning; and
- inputs into remuneration decisions.

Summary of Board Risk Committee activities in 2021

Area of focus	Actions taken by the Board Risk Committee and outcomes
Strategy	• Provided advice to the Board on the risk aspects associated with selection of the outsourcing partner for customer service operations • Ensured compliance with regulatory and operational resilience standards
Development of the risk function	• Reviewed the control functions and considered whether resourcing is sufficient for performing its function effectively
Scenario planning	• Reviewed the credit risk and operational risk scenarios to be used as part of the Bank's ICAAP and ILAAP
Climate change	• Reviewed the assessment of the Bank's business model's exposure to the financial risks of climate change
Products	• Advised the Board on the risk implications of new products, including the Smart Saver savings product launched in 2022
Remuneration	• Provided advice to the NRC on risk weightings to be applied for performance objectives and remuneration

Attendance	Total meetings attended/meetings eligible to attend
Richard Goulding (Chair)	11/11
Paul Cutter	10/11
Gaenor Bagley	11/11
Peter Herbert	11/11
Jonathan Hogan (resigned 31.12.2021)	9/11

Corporate governance continued

The Board Audit Committee and its activities

The role of the Board Audit Committee (BAC) is to assist the Board in discharging its duties and responsibilities for financial reporting, corporate governance and internal control. The BAC is also primarily responsible for making recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and to approve the auditor's remuneration and terms of engagement. The BAC duties include keeping under review the scope and results of the audit work, its cost effectiveness and the auditor's independence and objectivity. The BAC also monitors the volume and nature of non-audit services provided by the auditor. The other key areas that the BAC oversees are:

- quality and appropriateness of financial reporting;
- effectiveness of internal controls;
- external audit;
- internal audit; and
- whistleblowing.

Summary of Board Audit Committee activities in 2021

Area of focus	Actions taken by the Board Audit Committee and outcomes
Internal audit	• Approved the annual internal audit plan and internal audit charter • Considered internal audit reports • Monitored management's resolution of internal audit findings • Ensured ongoing independence of the internal audit function
External audit	• Approved the independence policy for external auditor • Considered the external audit plan presented by PwC • Received regular updates from the external auditor and reviewed the findings of their work on the financial statements • Monitored management's resolution of external audit findings • Ensured ongoing independence of the external auditor and approved non-audit services
Financial reporting	• Reviewed and challenged significant accounting policies, accounting judgements, and estimates • Review management judgement papers over significant judgements and estimates, such as the IFRS 9 expected credit losses • Reviewed and recommended to the Board for approval the Annual Report and Accounts • Reviewed and recommended to the Board for approval the Pillar 3 disclosures report
Whistleblowing	• Reviewed the annual whistleblowing report

Attendance	Total meetings attended/meetings eligible to attend
Gaenor Bagley (Chair)	7/7
Richard Goulding	7/7
Jonathan Hogan (resigned 31.12.2021)	6/7

The Board Nomination and Remuneration Committee and its activities

The role of the Board Nomination and Remuneration Committee (NRC) is to assist the Board in ensuring that it retains an appropriate structure, size and balance of skills to support the company's strategic objectives and values. The NRC assists the Board in meeting its responsibilities regarding the determination, implementation and oversight of the company's remuneration and talent management policies, both executive and non-executive, with a view to ensuring its continued ability to compete effectively in the marketplace. The Committee supports the Board in ensuring that the company's performance management and remuneration policies take account of the development of the company's culture and risk appetite.

Summary of Board Nomination and Remuneration Committee activities in 2021

Area of focus	Actions taken by the Board Nomination and Remuneration Committee and outcomes
Diversity and Inclusion	• Reviewed the Bank's approach to diversity and inclusion (D&I), including the implementation of the D&I forum and the establishment of partnerships with Code First Girls and Black Young Professionals Network
SMR	• Provided oversight of the annual fitness and probity checks of senior management functions and reviewed the Bank's annual assessment of the certified functions
Board membership	• Reviewed the performance and ability of the independent directors and where applicable, recommended their re-appointment to the Board at the conclusion of the specified term in office
Succession Planning	• Made recommendations to the Board in relation to succession plans for individuals performing senior management functions
Remuneration	• Made recommendations to the Board regarding remuneration and performance-related pay; approved the malus and clawback policy and process • Received advice from the BRC on remuneration risk • Reviewed the proposed initiatives to better align the Bank's benefits offering with staff needs

Attendance	Total meetings attended/meetings eligible to attend
Gaenor Bagley (Chair)	7/7
Richard Goulding	7/7
Peter Herbert	4/7

Corporate governance continued

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. The Board also reviews and approves the Board training programme on an annual basis, by considering the strategy and any collective and individual development. Directors are encouraged to attend external seminars on areas of relevance to their role.

Evaluation

The Board commissioned an external Board evaluation from Better Boards in Q2 2021 to review and reflect on its effectiveness and that of its committees. The evaluation confirmed that the Board exceeded in six out of seven categories the average scores achieved by other Boards surveyed, meaning that the Board was effective The Board approved an action plan to address the improvement areas identified, and it has continued to review the plan implementation.

The key learnings and changes implemented following that review included considering how to further bring the customer voice into the boardroom by arranging dedicated board time for customer call listening and holding regular presentations on themes collated from customer feedback.

Conflicts of interest

All directors have a duty to avoid situations that may give rise to a conflict of interest. Formal procedures are in place for dealing with any conflicts of interest. Directors are responsible for notifying the Chair and the Company Secretary as soon as they become aware of any actual or potential conflict of interest for discussion by the Board members, who consider the circumstances of the conflict when deciding whether or not to waive the potential conflict or impose conditions on the director in the company's interests. Directors are also required to seek the Board's approval for any new appointments or changes in commitments.

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

Diversity policy

The Board's committed to improving diversity in its membership and recognises the importance of diversity as a key consideration in new appointments, in addition to skill, experience and knowledge.

Our culture, values and standards

The Board is responsible for setting the company's values and standards and for ensuring that it's managed with integrity. As part of that responsibility, the Board monitors the diversity of the company's workforce. The Board monitors the embeddedness of the company's culture and values in the business and whistleblowing while reviewing the dedicated conduct risk reports presented regularly to it and the senior management.

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. That's achieved through regular company meetings, written communications and town halls.

Employee engagement is one of the company's key objectives, and it conducts an employee opinion survey twice a year. Team engagement scores form part of manager assessments. The survey results provide the opportunity for the Board and Executive management team to gain a perspective of the employees' view of strategy, leadership, culture and values. Management assesses the results of the surveys and takes appropriate actions.

Stakeholder engagement

s.172 disclosure

When making decisions, the directors of the Bank must act in a way that they consider, in good faith, to be most likely to promote Bank success for the benefit of its members as a whole while also considering the broad range of stakeholders who interact with and are impacted by our business. Throughout the year, while discharging their duties, the directors have had regard to the matters set out in Section 172(1) of the Companies Act 2006, including among other things the:

- likely long-term consequences of any decision;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and the environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly between members of the company.

The Bank strives to understand the views and needs of its broad range of stakeholders. The directors recognise that conflicting needs may arise across the Bank's stakeholders and that not every decision made will create the desired outcomes for all stakeholders. All decisions taken by the directors are intended to promote the long-term success of the Bank in a manner that's consistent with its purpose, values and strategic priorities.

UK Modern Slavery Act

Pursuant to the UK Modern Slavery Act, we produce a Modern Slavery Statement on an annual basis. The Statement outlines the steps we take to combat modern slavery and human trafficking in our business and supply chains and the steps we take to respond and support survivors and is available on our website.

Our stakeholders

The Bank engaged with key stakeholders throughout the past year to understand the matters of significance to them. As a result of that engagement, a number of actions were taken, as described in the following sections.

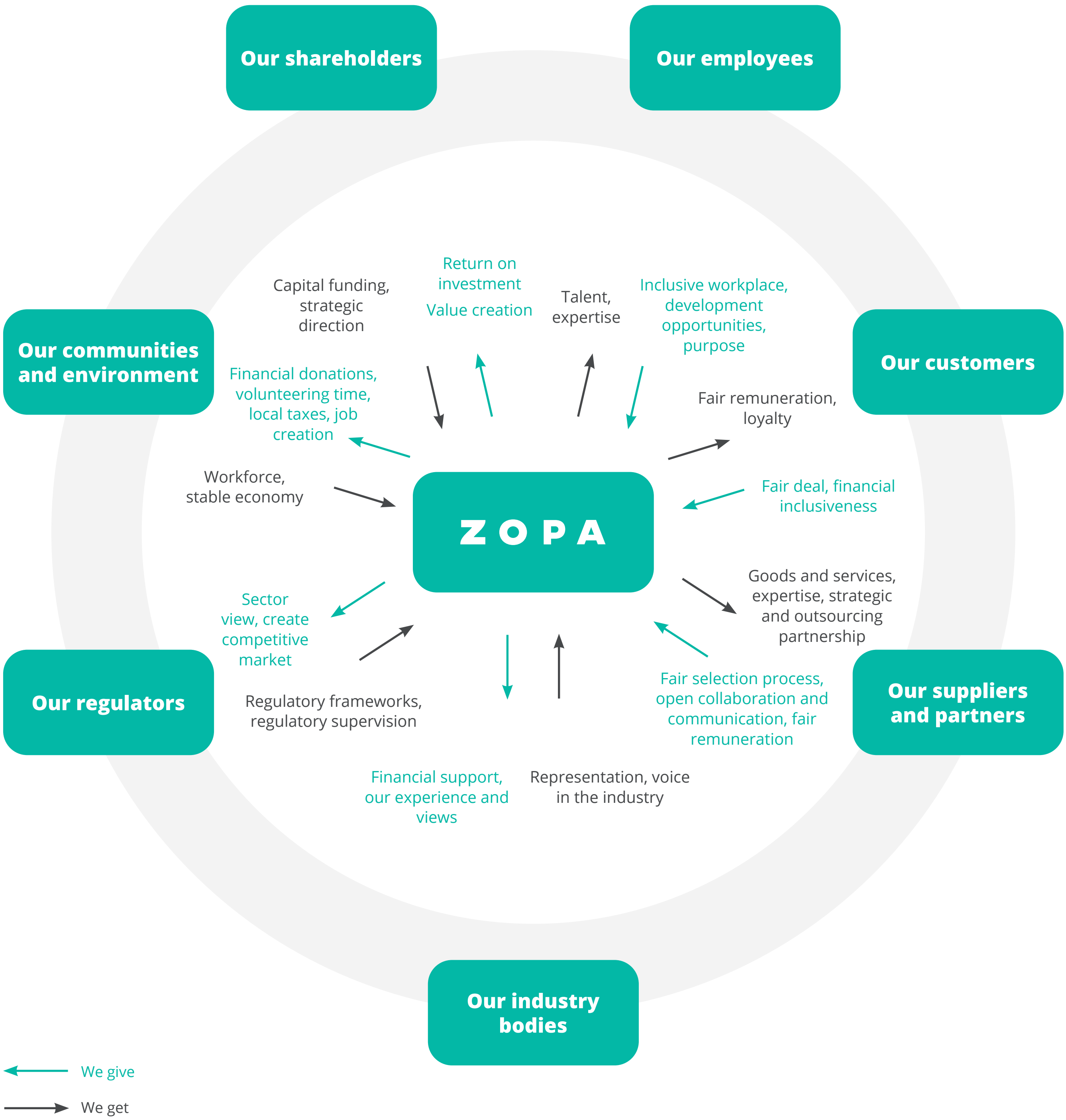
1
Identify
we identify our stakeholders based on mutual influence and impact.

2
Assess
we assess which issues we can influence, both now and in the future, and we share our plans.

3
Engage
we engage with our stakeholders to understand their views and needs, and what matters to them.

4
Review
we perform an ongoing review of our assessment and change our plans when that's in the best interest of the Bank and our stakeholders.

Stakeholder engagement
continued



Our shareholders

Directors and senior management engage in regular and fair dialogue with the company's shareholders to share strategic and financial updates and to seek feedback. During 2021, those discussions covered a broad range of topics, including the medium- and long-term strategic direction of the Bank, financial performance and plan, market dynamics, regulatory areas of focus (such as the operational resilience agenda), succession planning, diversity and engagement with other stakeholders.

The growth experienced by the Bank over the last year wouldn't have been possible without the support and confidence of the Group's shareholders. In 2021, Zopa Group completed two major capital raises to accelerate the Bank's growth. Both those capital raises resulted in significant changes to the Group's shareholder composition. The Bank Board kept abreast of the changing needs and expectations of our various shareholders through regular dialogue with shareholder representatives.

1. Corporate strategic direction
2. Product growth
3. Financial performance
4. Strong management and aligned incentives
5. Market perception
6. Impact of future dilution
7. Valuation outcomes and exit

Stakeholder	How we engaged	What matters to them	How the Board considers it
Zopa Group investors These are our largest shareholders, with representation on the Board.	• Discussions in Board and Board Committee meetings • Provision of quarterly investor reports • Submission of investor-specific information packs	1 Corporate strategic direction 2 Product growth 3 Financial performance 4 Strong management and aligned incentives 5 Market perception 6 Impact of future dilution 7 Valuation outcomes and exit	Our largest shareholders currently sit on the Board and therefore have direct input into key dimensions. The Board considers those dimensions through: 1) An Annual Strategy and Budget Process. The Board considers the likely capital needs and valuation outcomes as part of this process. 2) Product growth and financial performance is monitored through the receipt and discussion of regular MI cadence. 3) Management performance is assessed against an annual scorecard agreed at the start of the year. Short-term management incentives are aligned to that scorecard, while longer-term incentives are aligned to overall long-term business and share price performance. 4) Where required, the Board also receives external advice on key topics such as management incentives, market outlook, valuation, strategy and growth.

Stakeholder engagement
continued

Our employees

Our people are key to the success of our business model. We're proud of the contribution our people make to our business through innovation, excellent customer service and dedication. The Board's committed to embedding a culture where high performance, accountability and doing the right thing are celebrated and rewarded.

The Board agreed early in the pandemic that safeguarding the health and well-being of our people would remain central to our response. Consequently, the vast majority of employees have continued to benefit from our workplace flexibility policy in 2021 by supporting the delivery of work from alternative locations outside of the traditional office environment, including the option to work from abroad for up to 90 days a year. That approach has been underpinned by our rapid response in providing the right tools and technology to support our people and underpin our values. 84% of our people consider that our approach to workplace flexibility has impacted positively on our culture and on their lives. Our engagement survey scores on work–life balance are consistently high, which speaks to our culture of respect and the trust we have in our people to deliver their work in the way that's most effective for them.

The pandemic continues to teach us that looking after our mental and physical well-being has never been more important than it is now. Zopa has invested significantly in our mental health and well-being proposition through our employee benefits programme, learning curriculum and people engagement events, as well as on-site well-being activities that make best use of our space and meditation room. We've introduced numerous initiatives such as training sessions on the value of sleep, resilience, and emotional intelligence for all Zopians, as well as mental health training for managers. We will continue to further expand our well-being programme in 2022.

Zopa strives to provide a fair and inclusive working environment that embraces individuality, across race, ethnicity, faith, sexual orientation, class, disability and gender. Building on our inclusive, collaborative culture, a balanced and diverse workforce with equal opportunities and fair compensation that cuts through seniority and gender is important to Zopa.

As part of the applications and onboarding process, new employees are asked whether they require any special adjustments to be made to ensure their needs are met. The company employs people with disclosed disabilities and makes suitable adjustments to create an inclusive and safe working space for them. For example, our offices are fully wheelchair accessible.

We believe that growth in tech capability is a shared accountability across our business, and the broader UK business community, to enable our ability to grow, thrive and create exceptional career memories. Achieving tangible progress in this area requires clear commitments that are promoted horizontally across the business, including our commitment to diverse and inclusive shortlists, and our targets for Women in Finance Charter female representation.

We've made considerable progress in our levels of female representation in critical capability groups. In 2021, 21% of our engineering hires were female.

Although we have more women in our business than ever before, we recognise the importance of developing more female talent over the coming years as the way in which Zopa and the UK as a whole will address female representation in tech.

D&I has been mandated as part of the Board and Management Committees' agendas. Progress with the Women in Finance Charter targets has been included as a factor for deciding the leadership team's bonus element. Overall female representation across all levels at 31 December 2021 was 41%, and 31% in senior positions. Zopa is committed to achieving 44% of headline senior management being held by women by mid-2023.

In 2021, we introduced a mentoring programme which we believe will serve to develop leaders within Zopa and ensure that people break out of functional silos. That programme runs alongside our leadership development programmes. Zopa also implemented D&I training across the business in 2021 to build awareness of unconscious bias and align in a shared focus to combat it. Our most recent engagement survey responses were analysed by gender, race and sexual orientation, with double-digit increases recorded in satisfaction with our D&I agenda and investments this year.

We're proud that Zopa's growth story has opened doors to a whole variety of development and career progression opportunities for our people. By encouraging internal career mobility, we allow people to develop their careers in a variety of ways. For example, we've trained customer service agents to go on to become compliance officers, developers, lawyers and HR specialists. In fact, 16% of our open roles in the second half of 2021 were filled by internal candidates. That not only makes Zopa a great place to work but also starts to break down some of the systemic pipeline issues that we see in STEM professions.

1. Gender pay gap
2. Fair remuneration
3. Flexible working
4. Well-being
5. Sense of belonging
6. Working hours
7. Diversity, inclusion and equality
8. Learning and development

Stakeholder	How we engaged	What matters to them	How the Board considers it
Employees	• Employee engagement, measured bi-annually • Townhall meetings • Regular company-wide announcements	1 Gender pay gap 2 Fair remuneration 3 Flexible working 4 Well-being 5 Sense of belonging 6 Working hours 7 Diversity, inclusion and equality 8 Learning and development	For example, the Board evaluated results relating to the employee engagement surveys and management's plans for addressing areas requiring improvement. For example, the Board evaluated the results gender pay gap and diversity, inclusion and equality results and how management plans to close those gaps.

Stakeholder engagement

continued

Our customers

At Zopa, we aim to put the customer at the heart of our decision-making, whether it's in relation to product design or customer service. We believe that by focusing on product areas where there are unmet consumer needs, and delivering products which better meet those needs, we can improve the banking experience and, ultimately, the financial health of our customers.

Critical to our understanding of our customers is having both regular and varied touchpoints with them through research, servicing and social media engagement. We also take a quantitative approach by using analytics to better understand customer behaviour and any issues they may face using our products, as well as market level data to understand trends or macroeconomic changes which may impact them.

Generating such understanding is critical in all customer groups, but we apply a special focus to identifying customers who may be vulnerable and to ensuring that we take their needs into account.

We're proud that, as a result, Zopa's blended NPS score is industry leading and our customer service teams consistently deliver leading customer-satisfaction levels.

The Board's involved in setting the customer strategy for our business and is updated regularly via management information and supporting commentary on both the experience and outcomes that we deliver.

1. Value (interest rate, fees etc.)
2. Certainty (of rate and acceptance)
3. Speed of disbursal specifically for loans
4. Ease of understanding and managing, and achieve better outcomes for themselves
5. Security of their savings (FSCS coverage)
6. Interest rate
7. Ease of application and management

Stakeholder	How we engaged	What matters to them	How the Board considers it
Borrowers	• Regular NPS surveys • Ad-hoc research – both quantitative and qualitative – on new and existing products • Market research and competitive analysis to understand trends outside of our customer base • Monitoring of public forums such as Trustpilot and social media to understand customer sentiment • Via customer service teams – using data and where possible call recordings to share themes that emerge with the rest of the business	1 Value (interest rate, fees etc.) 2 Certainty (of rate and acceptance) 3 Speed of disbursal specifically for loans 4 Ease of understanding and managing, and achieve better outcomes for themselves	The Board evaluates whether the company's actions and products will benefit Zopa's customers. For example, through regular review of management information packs on customer outcomes, complaints review and customer satisfaction. Similarly, the Board received customer call listening updates highlighting the quality of service that our customers received, which reinforced the Board's desire to continue to invest in those services.
Depositors		5 Security of their savings (FSCS coverage) 6 Interest rate 7 Ease of application and management	The Board approved the launch of the Easy Access Savings product in 2021 to expand Zopa's savings offering and attract customers who cannot tie up their savings in a term product.

Our suppliers

In 2021, the Bank spent over £37m with suppliers and outsourcing partners on services and goods necessary to the effective running of our operations across the various domains of our business. That included business-critical operations that we manage with the help of our suppliers.

The Bank has a well-established procurement process that ensures we select appropriate suppliers who will help us to 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 us and to ensure good customer outcomes.

1. To understand which services can add value to our business model and operations
2. To be remunerated fairly and in a timely fashion for their services
3. To build long-lasting business relationships founded on a deep understanding of each other's strategic priorities
4. To be satisfied that we follow the rule of law, act ethically and are financially sound
5. Open and honest communication where performance is a concern and improvement is required

Stakeholder	How we engaged	What matters to them	How the Board considers it
Suppliers and outsourcing partners	• Work collaboratively to minimise the impact of the COVID-19 pandemic on our people, services and processes • Run fair selection processes, proportionate to the size and risk of the business objective • Ensure that our suppliers and outsourcing partners meet Zopa's minimum standards by performing due diligence assessments before onboarding and throughout a supplier relationship • Conduct ongoing monitoring and oversight of suppliers throughout the business relationship, on both commercial performance and suppliers' continuing adherence to Zopa's minimum standards, including for customer outcomes	1 To understand which services can add value to our business model and operations 2 To be remunerated fairly and in a timely fashion for their services 3 To build long-lasting business relationships founded on a deep understanding of each other's strategic priorities 4 To be satisfied that we follow the rule of law, act ethically and are financially sound 5 Open and honest communication where performance is a concern and improvement is required	• Maintained oversight of supplier performance and risk assessment, including review of regular management reports • Oversaw the selection process for new material suppliers to ensure that the chosen supplier is the best choice for Zopa • Ensured appropriate action is taken where performance is a concern and improvements are required

Stakeholder engagement

continued

Our industry bodies

We're a member of industry bodies such as UK Finance. Such membership allows us to participate more effectively in industry initiatives and industry-wide collaboration, and to work with policymakers and UK regulators. We also receive insights into the financial services sector's best practices, research, statistics and analysis.

The two main industry bodies that Zopa interacts with are UK Finance and The Finance and Leasing Association (FLA). We gain from them valuable information, opportunities to engage with peers, management intelligence reports and the ability to provide input into group responses to regulators.

Our focus with the FLA is the Motor Finance Division, while with UK Finance we have wider coverage, including credit cards, regulatory issues and complaints. The interaction between Zopa and the industry bodies is spread across the business, with subject matter experts from Zopa interacting with various forums and working groups as appropriate. We also have a central contact within Zopa who receives copies of all information, agenda, minutes, training and events information, data requests and outputs. From that central point, the information is distributed across Zopa as appropriate. We review membership levels each year to ensure that we have access to all appropriate streams and that we're engaging with the relevant working parties and forums.

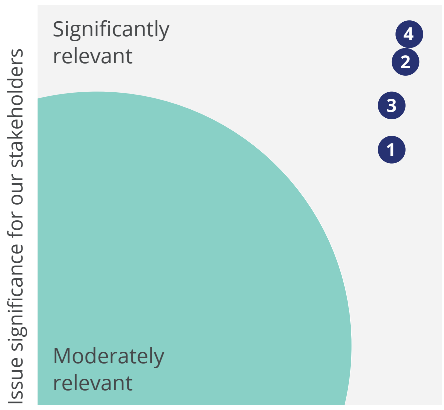
1. Creating a single voice for the retail banking sector
2. Enhancing UK financial services market competitiveness
3. Facilitating innovation
4. Supporting customers by promoting safe and transparent banking

Stakeholder	How we engaged	What matters to them	How the Board considers it
Industry bodies	• Attend working party meetings, forums and discussion groups • Contribute to consultation papers/ research MI as appropriate • Engage with additional groups such as the Dedicated Card and Payment Crime Unit and the National Vehicle Crime Intelligence Service through the industry bodies • Attend networking events • Utilise publications for horizon scanning	1 Creating a single voice for the retail banking sector 2 Enhancing UK financial services market competitiveness 3 Facilitating innovation 4 Supporting customers by promoting safe and transparent banking	The Bank and the industry bodies share similar views on the matters important to the sector and its customers. Management provided updates to the Board on key industry trends and developments, as well as their interactions with industry bodies. This information is then used when the Board makes strategic decisions regarding the Bank.

Our regulators

The Bank is subject to regulatory approvals, reviews and regulations as a result of its operations in the financial services sector.

Members of the Board of Directors meet with representatives of the PRA and the FCA, the two UK regulators of the financial services sector, on a periodic basis.



1. Governance, Culture and Accountability at Zopa
2. How we treat our customers and the outcomes we deliver for them
3. Operational resilience of our business
4. Whether we're appropriately capitalised and have sufficient liquidity, including during a period of stress

Stakeholder	How we engaged	What matters to them	How the Board considers it
UK regulators	• Periodic meetings between management, directors and the regulators • Participate in sector – or topic – specific reviews • Share copies of our Board and Board Committee papers and reports • Requested approvals as part of the SMCR	1 Governance, Culture and Accountability at Zopa 2 How we treat our customers and the outcomes we deliver for them 3 Operational resilience of our business 4 Whether we're appropriately capitalised and have sufficient liquidity, including during a period of stress	Independent directors met with the PRA as part of its standard approach to post-launch supervision of banks and discussed a range of governance topics. Executive directors meet regularly with the PRA and the FCA as part of their ongoing supervision. Those meetings cover discussions addressing Zopa's plans for growth, funding strategy and the P2P portfolio acquisition. This in turn informs the Board's decisions on the allocation of capital and managing the bank. The Board also regularly reviews customer complaints, including complaints raised to the Financial Ombudsman.

Stakeholder engagement
continued

Our communities, environment, and climate change

During the year, the Bank worked with local and national organisations that work for the benefit of our communities and the broader society. We also created a partnership with Code First Girls to nurture female talent in the tech space and to improve our visibility with senior women in tech.

In the medium term, those activities will help to change the gender composition in areas like tech. We've also established a partnership with the Black Young Professionals network to open recruitment routes and ensure that we reach diverse candidate pools.

In 2021, the company made charitable donations totalling £1,400 (2020: £nil).

1. Equality of opportunity
2. How our activities impact the environment – Greenhouse gas emissions
3. Sustainability commitments

Stakeholder	How we engaged	What matters to them	How the Board considers it
Community and environment	• Employee volunteering days • Contribute to the climate change and sustainability debate by publishing blogs and articles on the subject • Financial health and Borrowing Power tool • Promoting financial inclusiveness/budgeting and teaching children about money • How to spot and avoid financial fraud • Supporting women in tech • Partnership with Code First Girls	1 Equality of opportunity 2 How our activities impact the environment – Greenhouse gas emissions 3 Sustainability commitments	During the year, the Board reaffirmed its commitments to responding to climate-related risks and opportunities. Those were specifically considered when deciding the Bank's strategy for the coming years. The Board also considered the implications that the recommendations of the Taskforce for Climate-Related Financial Disclosures (TCFD) might have on how the Bank thinks about the strategy, governance, risk management and measurement of climate-related risks and opportunities. That's directly linked to the expectations that our stakeholders have regarding the Bank's greenhouse gas emissions and sustainability commitments.

Taskforce on Climate–Related Financial Disclosures

At the most recent UN Climate Change Conference (COP26) held in Glasgow, the UK government declared that the UK would be the first major economy to put into law the commitment to reach net-zero carbon emissions by 2050.

As part of its Green Industrial Revolution announced in 2021, together with a suite of other measures and investments, the UK government also reaffirmed its commitment to banning sales of new petrol and diesel vehicles from 2030 and hybrid vehicles from 2035.

The Board's view is that those announcements and commitments, together with any practical steps to be taken over the next couple of decades, will create inherent risks and opportunities for the whole economy, including the banking sector. The Board is acutely aware of the uncertainties posed by those changes and that the Bank's medium- and longer-term strategy must reflect such considerations.

In 2021, in response to the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD), the Board of Directors and the BRC reaffirmed their responsibilities in the identification, measurement, management and control of climate-related risks and opportunities. The Bank's updated RMF sets out how the Board delegates the execution of those responsibilities to Board and Management Committees.

The RMC and the BRC are responsible for assessing and managing climate-related issues and reporting their findings to the Board. Terms of Reference for each of those committees have been updated to reflect those new responsibilities. The Board considers climate-related issues at least annually, but even more frequently if necessary in response to new announcements, regulations, research or other developments.

As part of the Bank's commitment to becoming fully compliant with the TCFD's recommendations, the directors are looking to:

- continue to integrate climate-related information into strategic planning;
- establish governance and risk management practices recommended by the TCFD;
- broaden the metrics and information that the Board monitors in relation to climate-related risks and opportunities: and
- publish the Bank's climate-related goals and targets for achieving net-zero carbon emissions by 2050.

Streamlined Energy and Carbon Reporting

Under changes introduced by The Companies (Directors' report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, large unquoted companies and large limited liability partnerships (LLPs) are obliged to report their UK energy use and associated greenhouse gas emissions as part of the Streamlined Energy and Carbon Reporting (SECR) requirements. As a minimum, that covers gas, electricity and transport fuel, as well as an intensity ratio and information relating to energy efficiency action. The Bank used a specialist consultancy firm to provide comprehensive SECR compliance services.

Methodology

The following methodology was used in determining our greenhouse gas (GHG) emissions:

- Scope 1 – All direct emissions from the activities of Zopa or under own control. This includes fuel combustion on site such as gas boilers, fleet vehicles and air-conditioning leaks;
- Scope 2 – Indirect Emissions from electricity purchased and used by Zopa. Also included are the generation or consumption of heat or steam. Emissions are created during the production of the energy and eventually used by Zopa; and
- Scope 3 – Reflects emissions from employee-owned vehicles used for business purposes.

Data collected for each scope noted above was subsequently converted into Tonnes of Carbon Dioxide equivalent (TCO_2e) using the latest figures provided by The Department for Business, Energy and Industrial Strategy (BEIS) and The Department for Environment, Food and Rural Affairs (DEFRA).

Energy efficiency actions

In 2021, the principal efficiency actions taken by Zopa were:

- reduced our office footprint in September 2021 by surrendering a portion of our office given the increase in hybrid working post the COVID-19 pandemic. This will have had significant energy savings;
- introduced a marketplace where Zopa staff can buy furniture and equipment, and this is donated to our chosen charities to reduce waste;
- more hand dryers have been introduced to reduce hand towel waste;
- old and broken furniture and equipment are recycled in specialist waste recycling centres;
- office and other supplies of stock are in bulk with a one weekly delivery to save vans delivering several times;
- confidential waste bins are collected and then recycled, with annual certificates presented for how much we have recycled.

Greenhouse Gas Emissions

GHG Emissions	**2021**	2020
Scope 1	—	—
Scope 2	**71.0 TCO_2e** **334,477 kWh**	54.7 TCO_2e 234,707 kWh
Scope 3	**0.5 TCO_2e** **1,906 kWh**	0.2 TCO_2e 946 kWh
Total	**71.5 TCO_2e** **336,383 kWh**	54.9 TCO_2e 235,653 kWh
Total emissions per full-time employee (intensity ratio)	**0.16 TCO_2e**	0.13 TCO_2e

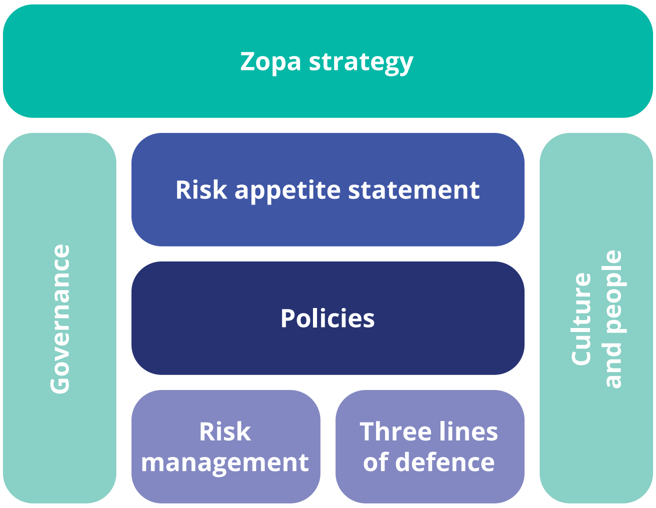
Risk management

Approach to risk management

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

Risk management framework

The risk management framework (RMF) sets out how the Bank 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.



Risk culture and people

Zopa's management recognises that its culture and human capital are key tools in delivering its strategy within the defined risk limits set out in the risk appetite statement. The risk culture is defined by the Board, and management is tasked with taking the lead on communicating and actively demonstrating that message.

Culture

The Board's definition of an effective and healthy risk environment is that of:

- risk-focused and open communication;
- prudent risk management; and
- risk-informed decision-making.

Management, with oversight by the Executive Committee (ExCo), implement and demonstrate the Board's message by establishing standards across their risk obligations:

Ownership and accountability

- Empowering staff to make risk-based decisions promotes an environment where staff take ownership of risks and are held accountable to the responsibilities set out in their job descriptions.
- Remunerating and incentivising staff based on behaviours that balance risk and reward.
- Being risk aware by promoting open communication streams and holding regular company meetings.

Execution

- Taking a risk-based approach to agility and innovation while prioritising customer outcomes.
- Making well-informed decisions based on appropriate and evolving management information reports.
- Being trained and competent to identify and assess risk so that Zopa learns from risks, builds technical and product development around that learning, and conducts stress tests for arising risk events.
- The second line of defence actively engages with the first line to find appropriately designed responses and controls to address current and emerging risks.

Escalation and communication

- Challenging processes and decisions.
- Encouraging staff to speak up and making them aware of their whistleblowing rights.
- Directing risk information towards the relevant committees as set out in policies.
- Downwards communication by regular company meetings, with video links available for employees unable to attend.

People

Employing and retaining skilled and competent people across all levels is critical for ensuring that Zopa can deliver its strategy and effectively manage risks. The Board entrusts that task to the CEO, who delegates the facilitation to the Chief People Officer. The CEO structures the management team so that the relevant roles are tasked with meeting responsibilities and that the individuals holding those roles are made aware of their obligations, which are clearly mapped to their job descriptions and as required by the senior management and certification regime (SMCR).

The People Team plays an important role in facilitating administration to support an effective structure of risk management by:

- managing resource requirements through effective recruitment, objective and retention strategies;
- developing the training strategy for both compulsory and development requirements;
- supporting Compliance to map responsibilities to job descriptions so that all senior managers operating under the SMR have clear statements of responsibilities and that related risk limits are translated into the staff's individual objectives;
- maintaining records of manager performance against SMCR training and competency requirements;
- monitoring reward and remuneration programmes; and
- managing appraisals by setting consistent scoring metrics.

Risk appetite

The Board sets a 'risk appetite' for each risk type by expressing the maximum level of risk of that type that the Bank is willing to tolerate in pursuit of its business strategy. That level is expressed through qualitative statements of appetite and supporting metrics for which 'triggers' and 'limits' are set.

The risk appetite is implemented in the business through the three lines of defence structure within the Bank, as described below, with performance monitored against risk appetite. Breaches of triggers or limits are escalated to the Board via the BRC and the executive Risk Management Committee (RMC), with remedial actions then agreed.

Three lines of defence

Risk management is structured around the Bank's three lines of defence model:

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

Risk management continued

Risk governance

Clear ownership of all major risk types is established. Each risk type is allocated:

- a risk oversight owner in the second line who is responsible for overseeing the Bank's management of risk. That includes setting policies and monitoring the first line's adherence to them. Risk oversight owners all fall under the senior managers and certification regime (SMCR), and their risk management responsibilities are reflected in their statements of responsibilities where appropriate;
- an executive-level committee is responsible for executive management of risk through regular monitoring of performance against risk appetite and other management reports. The committee also reviews material decisions as prescribed by policies;
- the RMC is the principal executive-level committee responsible for risk oversight. It met 12 times in 2021; and
- a Board-level committee is responsible for oversight of the management of risk through monitoring of performance against risk appetite and other management reports. It may also take very significant decisions relating to risk type, as prescribed by the policies. The role and responsibilities of the Board and its committees are set out on pages 28 to 33.

Policies and procedures

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

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

Risk management

Within the overall structure outlined, numerous risk management activities are conducted continuously for each risk type under the following categories:

- **identification and assessment** – Risks in each business area are identified and their significance assessed. Examples include: business areas identify operational risks in their processes and assess both their likelihood and significance against risk appetite; the credit risk of individual borrowers and the outlook for the credit market as a whole is assessed; capital and liquidity requirements, resources and related risks are forecast;
- **control and mitigation** – Action is taken to reduce identified risks to within appetite. Examples include: controls are implemented to reduce the likelihood and severity of operational risks; credit acceptance criteria are set to limit credit risk; management plans for capital and liquidity are set and executed;
- **monitoring** – Identified risks are monitored continuously by first- and second-line owners to: ensure that agreed controls and mitigating actions have been implemented; verify whether outcomes are as expected; identify instances where risk is increasing. Examples include: the effectiveness of controls around operational risks is monitored continuously; granular credit management reports are reviewed to understand loan book risks and how they're evolving;
- **reporting** – The results of the Bank's risk management activities, including performance against risk appetite, are reported regularly to the relevant executive and Board-level committees; and
- **response and learning** – When risks materialise, action is taken to reduce the risk of similar events in future. Examples include: root-cause analysis of operational risk events informs changes that may be required to policies and controls; adverse performance in particular lending segments may inform changes to credit strategy.

Stress testing

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

Principal risks

The principal risks – or major 'risk types' under Zopa's RMF risk management framework – faced by the company given its business model are capital risk, liquidity risk, market and interest rate risk, credit risk, operational risk, and strategic risk. The Bank also considers conduct risk – the risk that its actions result in poor outcomes for customers – which is a lens through which customer-impacting aspects of operational risk are viewed.

Credit risk

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

The Bank focuses its lending on three business lines: car finance, UPLs and credit cards.

Appetite
Overall Credit Risk
The Bank is willing to take risks that will be rewarded by maintaining losses that are acceptable in relation to the projected financial return. It seeks to meet that objective over the economic cycle while accepting that losses in periods of stress will be significantly higher than those incurred under more benign conditions.

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

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

Counterparty Credit Risk
The Bank's counterparty exposure is limited to counterparties holding the Bank's deposits. The Bank seeks to limit counterparty credit exposures to the minimum required to support its liquidity management.

Mitigation
The Bank uses a wide range of techniques to manage credit risk and avoid poor customer outcomes as part of its creditworthiness and affordability activities, which operate under the credit and responsible lending policy. Such activities include gathering data (from customers, credit reference agencies and through open banking), applying universal exclusion rules, verifying income and expenditure, applying cut-offs, limits and pricing using multivariate scorecards, and conducting further manual checks as necessary.

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

- a credit scorecard is designed to assess the credit risk of loan applicants using models trained on historic Bank and credit bureau data;
- minimum affordability and eligibility criteria are applied to all incoming applications;
- the Bank encourages borrowers who are experiencing financial difficulties to draw up an affordable payment plan to pay down their arrears over time. Payment plans may offer temporary relief in the form of reductions to contractual payments;
- regular monitoring of loan performance against expectations is performed by focusing on granular metrics across multiple loan characteristics;
- regular monitoring of the economic and credit market environment is performed;
- action is taken on front-book lending where portfolio performance or the economic outlook worsens against expectations;
- credit risk-related decisions must be approved by accredited decision-makers, with the seniority requirement being determined by the materiality of the decision;
- hard limits for counterparty credit exposures and the minimum credit quality of counterparties are established and monitored against;
- risk appetite and other key management reports are monitored by the RMC, BRC and Board at their regular meetings; and
- the Bank's credit exposures all are in the UK.

Measurement
The Bank's accounting policy for measurement of expected credit losses can be found in note 34.

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

The Bank also defines a range of internal indicators on credit and model performance, to measure the quality of originations and the portfolio on both a backward- and forward-looking basis.

Monitoring
The Bank monitors credit risk performance through internal reports covering performance against risk appetite limits and key credit risk metrics including: new business flow; portfolio quality; early warning indicators; arrears and recovery performance; portfolio concentrations. Monthly reports are provided to the RMC, BRC and Board. Credit risk performance is supported by portfolio reviews and deep dives on key credit risk themes.

Refer to note 12 to the financial statements for more information on the risk management of financial instruments held by the Bank.

Risk management continued

Principal risks continued

Capital risk

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

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

Mitigation
The Board Risk Committee (BRC) and Assets and Liabilities Committee (ALCO) manage the Bank's capital risk in line with its internal standards based on policies, limits, triggers, continuous monitoring and stress testing. Through the ICAAP process material risks to the Bank's capital position are analysed, in the light of the Bank's/Group's strategy, operations, potential stress scenarios, and actions under those scenarios. The ICAAP is treated as a live document, and used to inform ongoing capital management. Throughout 2021, the Bank continued to maintain capital ratios within the Board's risk appetite and regulatory requirements.

A key mitigation that the Bank uses to manage capital risk is the efficient deployment of our existing capital resources. This ensures that we maximise our risk-adjusted returns while remaining above regulatory requirements.

As we grow our business, additional capital needs to be raised to support that growth. In 2021, Zopa Group completed the Zopa's largest fundraise to date by securing £220m of additional capital. That significant investment from one of the sector's largest investment funds ensures that the Group has enough capital to support the Bank's growth until the middle of 2023 under its base-case growth scenario.

Measurement
The Bank is subject to capital requirements under both Pillar 1 and Pillar 2. The Bank's overall capital requirement under Pillar 1 is calculated by adding together the capital requirements for credit risk, operational risk and market risk (when above the minimum thresholds for inclusion).

Throughout the financial year, the Bank complied with the capital requirements in force as set out by the Prudential Regulation Authority (PRA). Further details can be found in note 34 to the financial statements and in the Bank's published Pillar 3 disclosures report.

Monitoring
Current and forecast levels of capital are monitored against the capital risk appetite approved by the Board, and the capital position is reported to the Bank's ALCO, RMC, BRC and Board on a regular basis.

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

Capital stress testing is performed as part of the Bank's ICAAP. The stress scenarios are used to develop an informed understanding and appreciation of the Bank's capacity and resilience to withstand shocks of varying severities. Management actions are also identified which could be taken to mitigate the impact of the stresses on the Bank's capital position.

Liquidity risk

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

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

Mitigation
The Bank's business is inherently low in liquidity risk since there's a low level of maturity transformation in its current book. The material liquidity risks the Bank faces are:

- credit card outflows exceeding expectations;
- loan prepayments falling short of expectations;
- loan delinquencies exceeding expectations; and
- rollover rates of maturing deposits falling short of expectations.

Retail deposits were predominantly of a fixed-term nature as at 31 December 2021 and didn't constitute a material liquidity risk.

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

Measurement
Forward-looking assessments of liquidity resources and requirements are produced, summarised in the ILAAP document and agreed at Board level. The ILAAP requires the Bank to consider all material liquidity risks in detail, document an analysis of each key liquidity risk driver and set a liquidity risk appetite against each of those drivers.

Monitoring
Liquidity risk appetite metrics are reported to ALCO, the RMC, the BRC and the Board each month, with in-depth discussion at ALCO. Additional liquidity metrics are set as part of the ILAAP to support minimum regulatory requirements and internal liquidity risk appetite.

Market and interest rate risk

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

The Bank doesn't have a trading book and, as a result, doesn't carry out proprietary trading or hold any positions in assets or equity, except for high quality assets (HQLA).

Appetite
The Bank doesn't seek to take market risk and interest rate risk in the banking book in pursuit of profit, and it would only do so to support its primary business objectives. The Bank doesn't engage in any form of proprietary trading.

Mitigation
The Bank has structurally low exposure to this risk, given that it has no trading book and there's a low level of maturity transformation in its current banking book. Hedging activity is performed to reduce residual market and interest rate risk exposure.

Risk appetite and other key management reports are monitored by ALCO, the RMC, the BRC and the Board at their regular meetings.

Measurement
Levels of market and interest rate risk in the balance sheet are quantified regularly, including through the application of regulatory stress scenarios for interest rate in the banking book.

Monitoring
Levels of market risk and interest rate risk are monitored regularly against limits. Risk appetite and other key management reports are monitored by ALCO, the RMC, the BRC and the Board at their regular meetings.

Risk management continued

Principal risks continued

Conduct risk

Definition
The risk that Zopa's actions result in poor outcomes for customers. Conduct Risk is a lens through which to view the aspects of Operational Risk which could also have adverse consequences for customers.

Appetite
Although it's technically part of operational risk, the Bank includes a distinct conduct risk appetite in its risk appetite statement to ensure appropriate Board visibility and focus. This appetite expresses the limits of conduct risk exposure that the Board's willing to accept in achieving its strategic objectives.

Conduct risk appetite is defined through both quantitative and qualitative risk metrics on customer outcomes, risk and control assessments, key risk indicators or key control indicators.

Like operational risk, conduct risk isn't typically a risk taken directly in return for an expected reward; rather it exists in the natural course of the Bank's activities and cultural approach. The Bank has no appetite for customer outcomes that are poor by design, and it seeks to limit unintentional poor outcomes through the appropriate management of operational risk.

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

- the Bank Board sets culture, values, behaviours and standards within the parameters set by the Group Board for the Zopa group of companies. The culture is designed to promote good customer outcomes;
- the Bank Board promotes the adoption of the required culture within the Bank and sets the conduct risk appetite, against which it assesses performance every time it meets; and
- the CEO is responsible for setting the tone from the top and embedding the culture set by the Bank Board.

In practice, conduct risk is managed through the minimum standards and controls in place for managing the relevant aspects of operational risk under Zopa's RMF and set out in activity-specific policies.

Measurement
Conduct risk is measured using both forward-looking indicators of potential poor customer outcomes, and backward-looking indicators of customer outcomes experienced. Forward-looking indicators focus on controls around key processes involving conduct risk, while backward-looking indicators focus on measures including complaints, customer satisfaction, and product-specific customer outcomes.

Monitoring
Reporting on conduct risk appetite and supporting indicators is monitored regularly and presented to the Board and senior management.

The material sources of conduct risk in the Bank's business are listed in the table below.

Possible Sources of Conduct Risk	Potential Risk Area
Product	Product design/targeting Customer journey/lifecycle Distribution and marketing
Operational Processes	Arrears management Redress calculations Outsourcing arrangements Cyber and information security Financial crime and fraud events
Credit	Automated credit decisioning Lending practices (e.g. affordability checks)

Operational risk

Definition

The risk that Zopa suffers losses stemming from inadequate or failed internal processes, people and systems, including fraud or risks from the impact of external events, including legal risks.

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

- external fraud or cyber attacks;
- severe disruption to business services, as a result of internal system failures or failures at third parties;
- failure to execute plans, products or processes in line with internal and external expectations;
- failures in design of products or customer interactions resulting in poor customer outcomes;
- misinterpretation of regulatory obligations;
- internal fraud events; and
- model errors.

Appetite

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

Mitigation

Each business area within the Bank must identify the operational risks present in its activities, assess these risks, and implement suitable controls to prevent or detect the risks from materialising. These assessments are documented in each area's Risk and Control Self-Assessment (RCSA). Any risks identified as being outside risk appetite must be addressed, whether through the application of enhanced controls to reduce residual risk or changes to the activity or process to reduce inherent risk.

Key controls include: the maintenance and regular testing of Business Continuity and Disaster Recovery Plans; quality control on operational processes; change management and quality assurance processes on new software releases; expert reviews and sign-offs of important business changes; and a suite of automated monitoring to detect any breaches or control failures. A risk events management process is also in place, under which risks that materialise are registered, communicated to relevant staff, contained, remediated, and closed with a root-cause analysis which identifies any steps that must be taken to avoid similar events in future.

Measurement

Operational risk is measured in terms of potential financial losses, impact on customers, and regulatory breaches. All risks identified under RCSAs must be quantified in terms of the severity and likelihood of these adverse outcomes.

In terms of the capital required to protect against severe operational risk events, as at 31 December 2021, the operational risk requirement for the Bank under Pillar 1 was calculated using the basic indicator approach, whereby a 15% multiplier is applied to the historical average net interest and fee income of the last three years based on audited financial statements. Given that the Bank is in the early stages of full operation, there are no historic figures available for the last three years, hence the Pillar 1 capital requirement for operational risk has been calculated using the forecast operating income for the next three years. Under that approach, the Pillar 1 operational risk requirement was £13m as at 31 December 2021.

Monitoring

Regular reporting on RCSAs and control effectiveness is produced by first line, reviewed by second line, and reviewed by the RMC, the BRC, and the Board.

Risk management continued

Principal risks continued

Strategic risk

Definition

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

Material risks identified in relation to strategic risk are:

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

Appetite

The appetite for strategic risk is set as an inherent part of the strategic plan, approved by the Board.

Mitigation

Strategic risk is managed through the Bank's strategic planning process. The CEO leads the process, which includes ongoing analysis of the market, identification of strategic opportunities and design of detailed product proposals. Any impediments to successful execution of the strategy are identified and acted on in the normal course of business management.

Measurement

The strategic plan sets out key goals and performance indicators through which the success of the business's execution of the strategy is measured.

Monitoring

Performance against the strategic plan is monitored by the Board throughout the year.

Uncertainties and emerging risks

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

Theme	Risk	Mitigation

Financial risk from climate change	The Bank has assessed the financial risks it faces from climate change and determined that the potential impacts come under the following categories:
	• **Credit risk**: In particular,
	  • Zopa could experience increased credit risk if severe weather events such as flooding, wildfires or storms cause damage to vehicles against which we have Secured Auto loans or lead to increased financial pressures on borrowers (e.g. inability to work or additional costs incurred repairing damage to their homes) which could indirectly lead to increased defaults on UPLs.
	  • Zopa could experience increased credit risk if changes in regulation, technology developments or consumer preferences lead to increased depreciation of vehicles against which we have Secured Auto loans (e.g. diesel and petrol cars may depreciate faster if electric or hybrid cars increase in popularity). That in turn could lead to an increase in voluntary termination losses and a reduction in recoveries.
	• **Strategic risk**: Zopa may be unable to achieve future strategic goals if long-term shifts in the climate or the UK's economy creates conditions that don't support its strategic goals.
		• While the immediate risk is deemed as low, given Zopa's product set and target customers, ongoing monitoring, forecasting and stress testing is undertaken to ensure that the Bank is resilient to those risks, particularly in terms of credit outcomes and operational stability.

UK macroeconomic performance	Uncertainty for UK macroeconomic performance remains from two core risks: 1) New COVID-19 variants and 2) geopolitical risks and tensions. As seen historically, a new COVID-19 variant that leads to government policy intervention is likely to place pressure on the economy, resulting in lower activity levels. This can, in turn, pose a risk to employment levels and reduce disposable income. Geopolitical tensions, including the current conflict between Russia and Ukraine, also place new pressures on commodity prices and therefore, inflation. A prolonged worsening outlook, due to geopolitical tensions or a new COVID-19 variant, create increased risks around expected credit performance. For credit performance, unemployment levels and inflation are two key metrics. Increased unemployment reduces a borrower's ability to pay. Increased inflation reduces a borrower's disposable income and therefore, their ability to pay. The risk from inflation is compounded should central bank policymakers decide to further increase interest rates, reducing a borrower's disposable income further.	• Continued monitoring, forecasting and stress testing are undertaken to guide underwriting and impairment to manage the resulting credit and capital risks. • Credit applications assessed in 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 cyberattack or IT outage could result in loss of customer data and/or prevent the company from providing its critical business services, thus leading to customer harm, loss of revenue and reputational damage.	• Robust business continuity, disaster recovery and back-up arrangements. • Ongoing information security threat monitoring to ensure that countermeasures are up to date and effective.
Failure of a critical outsourcing provider or supplier	A failure or defect in an outsourcing 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. • Ensuring 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.

Directors' report

Corporate governance

The Directors of Zopa Bank Limited (henceforth 'the Bank' or 'the company') present their Annual Report together with the audited financial statements for the year ended 31 December 2021 (together the 'Annual Report and Accounts').

The Directors are required under Section 414 of the Companies Act 2006 to present a strategic report in the Annual Report and Accounts. The information can be found on pages 1 to 57. As noted in the table below, the Bank has chosen, in accordance with Section 414C(11) of the Companies Act 2006, to include certain matters in its Strategic Report that would otherwise be disclosed in this Directors' report.

Subject	Pages
Business review and future developments	8 to 17
Results for the year	18 to 22
Composition of the Board and Board Committees	24 to 29
Approach to corporate governance	28 to 34
Relationship with shareholders	37
Employees and employees with disabilities	38
Relationship with suppliers	41
Charitable donations	44
Environment and greenhouse gas emissions	44 and 45
Risk management	46 to 55
Use of financial instruments	78 to 80
Post balance sheet events	119

Dividends

The Directors are not recommending any dividend in respect of the year ended 31 December 2021 (2020: £nil).

Going concern

The financial statements have been prepared on a going concern basis, as the Directors are satisfied that the Bank 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 (the statement of financial position), future projections of profitability, cash flows and capital resources. The Bank's capital and liquidity plans, including alternative scenarios such as raising inflation and interest rates, have been reviewed by the Directors. When preparing the forecasts, the Bank has reflected the economic repercussions of the COVID-19 coronavirus, including the risk of worse than expected credit performance and lower demand for borrowing, thus contributing to lower growth.

The Bank received a capital injection of £17m from Zopa Group Limited on 24 March 2021 following completion of a £20m investment, led by existing investors, into Zopa Group Limited.

In October 2021, a further investment of £220m into Zopa Group Limited, led by SoftBank's Vision Fund, was announced. This investment was completed in three stages to accommodate the relevant regulatory approval processes. In November 2021, the Bank received £42m, followed by a further £98m in December 2021 and £2m in January 2022. A final downstream of the remaining amount is expected to take place in 2022, subject to regulatory approvals.

This capital will support the continued asset growth of the balance sheet while also covering the impact of IFRS 9 expected credit losses on a growing loan portfolio. Together, this capital injection supports the long-term profitability objectives of the business.

The Board also prudently evaluates alternative scenarios, including the impact of Zopa Group Limited injecting capital to Bank at a later point or the capital raise completion itself being delayed. This could be due to delays at the applicable regulatory authorities in approving the required conditions or due to other unforeseen circumstances. If expected capital injections were delayed and it was not possible to raise capital from other investors, the Bank's business model retains flexibility to reduce new lending volumes to maintain its capital self-sufficient position. These actions would ensure that the Bank continued to meet its regulatory capital and liquidity requirements as set out by the PRA without a further injection of capital in 2022 or 2023.

Political donations

The Bank made no political donations in 2021 (2020: £nil).

Share capital

Zopa Bank Limited is a private limited company limited by shares, incorporated in England & Wales and domiciled in the United Kingdom under the Companies Act 2006 (registered number 10627575).

Details of the Bank's issued share capital, together with details of any movements in the Bank's issued share capital during the year, are shown in note 26 of the financial statements. The Bank's share capital comprises one class of ordinary share with a nominal value of £1.00 each. As at 31 December 2021, 349,319,069 ordinary shares were in issue.

Substantial shareholdings

As at the date of publication of this report, 100% of the Bank's issued share capital is owned by Zopa Group Limited ('the Shareholder').

Restrictions on the transfer of shares

There are no specific restrictions on the transfer of shares of Zopa Bank Limited. In practice, any transfer of shares in Zopa Bank Limited would need to be approved by Zopa Group Limited and its ultimate shareholders.

Rights attaching to shares

On a show of hands, each member has the right to one vote at general meetings of the company. On a poll, each member would be entitled to one vote for every share held. The shares carry no rights to fixed income. No one person has any special rights of control over the company's share capital and all shares are fully paid.

New issues of share capital

Subject to the requirements of the Capital Requirement Regulation (CRR), the PRA Rulebook and any applicable law, in accordance with Section 550 of the Companies Act 2006, the Directors of Zopa Bank Limited have a general authority to allot equity securities. The company has disapplied Sections 561 and 562 of the Companies Act 2006 and no right of pre-emption applies on an issue of its shares.

Purchase of own shares

Subject to the requirements of the Companies Act 2006 (including any requisite shareholder consents), the CRR and the PRA Rulebook, the Bank may make a purchase of its own shares subject to a cap on any purchase for cash consideration in any financial year of up to the lower of £15,000 or the nominal value of 5% of the company's share capital.

Appointment and resignations of Directors

The appointment and resignations of the Directors is governed by the company's Articles of Association and the Companies Act 2006. The company's Articles of Association may only be amended by a special resolution passed by shareholders at a general meeting.

The following director appointments and resignations have taken place in 2021 and until the date of publication of this Annual Report and Accounts:

Director	Appointed	Resigned
Andrew Cassin	09.02.2022	
Giles Andrews	12.01.2022	
Gordon McCallum	12.01.2022	
Scott Christopher Jones	12.01.2022	
Michael Woodburn	12.01.2022	
Nicholas Aspinall	12.01.2022	
Stephen Hulme	30.03.2021	
Jonathan Hogan		31.12.2021

Directors' report continued

Directors' remuneration

The Bank adheres to the requirements of the Remuneration Code as defined by the Financial Conduct Authority (FCA), the UK regulator. The non-executive directors do not receive variable remuneration. Information on the company's Remuneration Code is set out in the Pillar 3 disclosures, which can be requested on our website www.zopa.com. Details of the Directors' beneficial interests are set out in note 7 to the financial statements.

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.

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 UK-adopted international accounting standards.

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 applicable UK-adopted international accounting standards 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 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 also 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.

Independent auditors

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

The Directors' report has been approved by the Board of Directors and signed on its behalf by:

Jaidev Janardana
Chief Executive Officer

26 April 2022

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 financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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, which comprise: the statement of financial position as at 31 December 2021; the statement of comprehensive income, 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 9, 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 and Credit Cards.
- Determination of the fair value of the loan book acquired from retail investors.

Materiality

- Overall materiality: £1,404,000 (2020: £1,040,000) based on 5% of the average of the last three years (including 2021) reported loss before tax.
- Performance materiality: £1,053,000 (2020: £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.

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.

The determination of the fair value of the loan book acquired from retail investors is a new key audit matter this year. The complete and accurate recording of customer deposits and unsecured personal loans, 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. The effect of COVID-19 on the audit of the financial statements, which was a key audit matter last year, is no longer included because our consideration of the impact in the current year is captured by our key audit matter on the determination of allowance for expected credit losses on loans and advances – Unsecured Personal Loans and Credit Cards and it no longer represents an area of increased audit attention in its own right.

Otherwise, the key audit matters below are consistent with last year.

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 and Credit Cards As at 31 December 2021 the gross carrying value of loans and advances to customers was £1,228m and the associated allowance for expected credit losses was £53m. The company has grown its unsecured personal loan and credit card portfolios significantly over the last year. Due to the size of these portfolios and the uncertain economic environment, there is an increased risk that the unsecured personal loans and credit card receivables may not be recoverable and not carried at the appropriate value on the statement of financial position. 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 the unsecured lending portfolios. 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 being most judgemental, being: the appropriateness of the assumptions used in determining the probability of default, the selection of forward-looking economic assumptions used in the models, including management's assumptions to address economic uncertainty, the judgements involved in addressing underlying economic uncertainty through the use of post-model adjustments and the application of these adjustments. Reference to note 16 'Loans and advances to customers' and note 34.1 '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 and credit cards. 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 modelling 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); We tested the key assumptions and judgements used in the calculation of the ECL allowance, including, but not limited to, those made by management in determining Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD); 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 and credit card ECL models by comparing it to the prior year and translating the key blocks of code and reconciling this to the company's methodology respectively; 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 Assessed the completeness and accuracy of the post-model adjustments, including obtaining a detailed understanding of the rationale for the adjustment and quantification methodology applied by management. We also assessed the disclosures in note 1.8, regarding the critical judgments and accounting estimates 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 and credit cards to be appropriate and compliant with the requirements of IFRS 9.

Independent auditors' report continued

to the members of Zopa Bank Limited

Report on the audit of the financial statements continued

Our audit approach continued

Key audit matters continued

Key audit matter	How our audit addressed the key audit matter
Determination of the fair value of the loan book acquired from retail investors In December 2021, the company acquired a portfolio of unsecured personal loans and auto loans from retail investors. In line with the investor agreement, the loans were purchased by the company at their principal value of £347m. However, Accounting Standards require management to record the acquired loans on the statement of financial position at their fair value and subsequently measure them at amortised cost. The estimation of the fair value of the loans acquired from retail investors requires models which utilise both observable and unobservable inputs. The most significant judgement in calculating the fair value relates to the determination of an appropriate discount rate. The acquisition of the loan portfolio was an area of focus for our audit and our discussions with both management and the Board Audit Committee. Reference to note 33 in the financial statements.	Our audit procedures comprised the following: We understood and evaluated the design and implementation of controls relating to the valuation of the acquired loan portfolio; We reviewed the methodology used by management to determine the fair value of the acquired loans; We engaged our valuation experts to assess the appropriateness of the significant assumptions within the valuation model which we considered to be the discount rate; We derived our own independent estimate of the discount rate and compared this to that used by management; We assessed the reasonableness of the other assumptions used in the fair value calculation, which included the prepayment rate, recovery rate and expected default rate, based on historical experience and the assumptions used to determine other accounting estimates, such as the allowance for expected credit losses; and We tested the mathematical accuracy of the fair value calculation. Based on the above procedures performed, and the evidence obtained, we concluded that the estimated fair value of the acquired loans was reasonable. We evaluated the appropriateness of the critical judgments and accounting estimates in note 1.8 in the financial statements and the disclosure in note 33 Loan portfolio acquisition and considered these to be reasonable.

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	£1,404,000 (2020: £1,040,000).
How we determined it	5% of the average of the last three years (including 2021) reported loss before tax.
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 in 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% (2020: 75%) of overall materiality, amounting to £1,053,000 (2020: £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 £70,000 (2020: £52,000) 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.

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 12 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.

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

Report on the audit of the financial statements continued

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 2021 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, 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 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 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 determination of allowance for expected credit losses on loans and advances – Unsecured Personal Loans and Credit Cards and the determination of the fair value of the loan book acquired from retail investors (see related key audit matters); and
- identifying and testing journal entries, including 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.

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 five years, covering the years ended 31 December 2017 to 31 December 2021.

Nick Morrison

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

26 April 2022

Statement of comprehensive income

For the year ended 31 December

	Notes	2021 £000	2020 £000
Interest income		**61,146**	7,228
Interest expense		**(5,466)**	(610)
Net interest income	2	**55,680**	6,618
Fee and commission income		**2,432**	152
Fee and commission expense		**(3,275)**	(2,072)
Net fee and commission expense	3	**(843)**	(1,920)
Other operating income	4	**12,807**	16,114
Net losses on disposal of property, plant and equipment	19 & 20	**—**	(82)
Net losses on derecognition of financial assets measured at amortised cost	5	**(2,234)**	—
Changes in fair value of financial instruments measured at FVTPL		**(182)**	71
Total operating income		**65,228**	20,801
Operating expenses	6	**(57,640)**	(38,415)
Net operating income/(loss)		**7,588**	(17,614)
Change in expected credit losses and other credit impairment charges	10	**(41,812)**	(12,788)
Change in provisions for other liabilities and charges	24	**—**	(152)
Loss before tax		**(34,224)**	(30,554)
Taxation	11	**1**	9
Loss after tax		**(34,223)**	(30,545)
Total comprehensive loss		**(34,223)**	(30,545)
Attributable to:			
Equity holders		**(34,223)**	(30,545)

The accompanying accounting policies and notes on pages 70 to 119 are an integral part of the 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 (2020: nil).

Statement of financial position

As at 31 December

	Notes	2021 £000	2020 £000
Assets			
Cash and cash equivalents:			
– Central banks	13	**191,148**	35,024
– Other banks	13	**30,366**	22,189
– Debt securities	13	**16,244**	12,243
Financial assets at fair value through profit or loss:			
– Derivative financial instruments	15	**11**	—
Financial assets at amortised cost:			
– Loans and advances to customers	16	**1,173,013**	225,390
– Amounts due from other group undertakings	17	**1,808**	3,080
Prepayments and accrued income	18	**2,489**	1,480
Other assets		**1,960**	1,089
Property, plant and equipment	20	**1,054**	1,376
Right-of-use assets	19	**3,526**	511
Intangible assets	21	**9,352**	12,183
Total assets		**1,430,971**	314,565
Liabilities			
Financial liabilities at fair value through profit or loss:			
– Derivative financial instruments	15	**—**	97
Financial liabilities at amortised cost:			
– Amounts due to banks	22	**175,193**	11
– Deposits by customers	23	**968,000**	177,823
– Amounts due to other group undertakings	17	**17,000**	3,128
Accruals		**8,887**	3,446
Provisions	24	**1,372**	404
Other liabilities	25	**5,113**	1,567
Lease liabilities	19	**3,151**	467
Total liabilities		**1,178,716**	186,943
Equity			
Called–up share capital	26	**349,319**	192,319
Other reserves	27	**6,180**	4,324
Retained losses		**(103,244)**	(69,021)
Total equity		**252,255**	127,622
Total equity and liabilities		**1,430,971**	314,565

The accompanying accounting policies and notes on pages 70 to 119 are an integral part of the financial statements.

The financial statements were approved by the Board of Directors on 26 April 2022 and signed on its behalf by:

Jaidev Janardana
Chief Executive Officer

Steve Hulme
Chief Financial Officer

Statement of changes in equity

For the year ended 31 December

	Notes	Called-up share capital £000	Other reserves[1] £000	Retained losses £000	Total equity £000
Balance as at 1 January 2020		54,160	1,786	(36,308)	19,638
Total comprehensive loss		—	—	(30,545)	(30,545)
Shares issued	26	138,159	—	—	138,159
Net share option movements	28	—	920	—	920
Transfer of assets from related party		—	—	(2,168)	(2,168)
Other movements	27	—	1,618	—	1,618
Balance as at 31 December 2020		192,319	4,324	(69,021)	127,622
Balance as at 1 January 2021		**192,319**	**4,324**	**(69,021)**	**127,622**
Total comprehensive loss		**—**	**—**	**(34,223)**	**(34,223)**
Shares issued	26	**157,000**	**—**	**—**	**157,000**
Net share option movements	28	**—**	**1,856**	**—**	**1,856**
Balance as at 31 December 2021		**349,319**	**6,180**	**(103,244)**	**252,255**

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

The accompanying accounting policies and notes on pages 70 to 119 are an integral part of the financial statements.

Statement of cash flows

As at 31 December

	Notes	2021 £000	2020 £000
Reconciliation of loss before tax to net cash flows from operating activities:			
Loss before tax		**(34,224)**	(30,554)
Adjustments for:			
– Non-cash items	14	**50,828**	20,108
– Changes in operating assets and liabilities	14	**(192,441)**	(41,670)
– Tax received		**—**	9
Net cash used in operating activities		**(175,837)**	(52,107)
Cash flows from investing activities			
Purchase of property, plant and equipment	20	**(519)**	(211)
Disposal of property, plant and equipment	20	**—**	45
Purchase of non-current assets from related party	29	**—**	(9,106)
Purchase and development of intangible assets	21	**(2,036)**	(2,675)
Net cash used in investing activities		**(2,555)**	(11,947)
Cash flows from financing activities			
Shares issued	26	**157,000**	138,159
Change in amounts due to banks	22	**175,182**	11
Change in amounts due to and from other group undertakings	17 & 29	**15,144**	(7,173)
Principal elements of lease payments	19	**(632)**	(308)
Net cash generated from financing activities		**346,694**	130,689
Net increase in cash and cash equivalents		**168,302**	66,635
Cash and cash equivalents at start of year	13	**69,456**	2,821
Cash and cash equivalents at end of year	13	**237,758**	69,456
Loss before tax includes:			
Interest received		**52,771**	5,798
Interest paid		**(5,020)**	(518)

The statement of cashflows has been represented. Details of the presentational changes have been disclosed in note 1.9.

The accompanying accounting policies and notes on pages 70 to 119 are an integral part of the financial statements.

Notes to the financial statements

1. Basis of preparation and significant accounting policies

Overview

This section sets out Zopa Bank Limited's ('the Company') accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates.

For the 2021 reporting, the Company has adopted certain recommendations of the Taskforce for Disclosures on Expected Credit Losses (DECL).

1.1 General information

The Company provides retail banking services in the UK and is a private limited company limited by shares incorporated in England & Wales and domiciled in the United Kingdom under the Companies Act 2006 (registered number 10627575). The registered office is at First Floor Cottons Centre, 47-49 Tooley Street, London, England, SE1 2QG. The Company is part of the Zopa Group (the 'Group').

1.2 Basis of preparation

The financial statements of the Company comply with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The financial information has been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value through profit or loss. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All policies have been consistently applied to all the years presented unless stated otherwise.

1.3 Going concern

The Directors consider that it is appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements. In reaching this assessment, the Directors have considered projections for the Company's capital and funding position, statement of financial position (balance sheet), profitability, cash flows, as well as other principal risks disclosed in the Strategic report. As part of this process the Directors have considered an updated long-term plan including associated upside and downside scenarios. All scenarios considered incorporate assumptions surrounding the continuing COVID-19 pandemic and rising inflation over both the near and longer terms. Directors also considered the key assumptions and uncertainties that feed into these plans alongside management actions and mitigants that are available. Under all scenarios considered the Directors believe the Company to remain a going concern on the basis that it maintains sufficient resources to be able to continue to operate for the period of at least 12 months since the date of authorisation of these financial statements.

1.4 Functional and presentational currency

The financial statements are presented in Pounds Sterling ('GBP'), which is the functional and presentational currency of the Company. All amounts have been rounded to the nearest thousand ('£000'), 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 comprehensive income.

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.

1.5 Segmental reporting

IFRS 8 requires operating segments to be identified on the basis of internal reports and components of the Company that are regularly reviewed by the Chief Operating Decision Maker. For this purpose, the Chief Operating Decision Maker of the Company is the Board of Directors. The Board considers the results of the Company as a whole when assessing the performance and allocating resources. Accordingly, the Company has a single operating segment. No geographical or customer-level analysis is required as the Company operates solely within the UK and is not reliant on any single customer.

1.6 Cash flows statement

The statement of cash flows shows the changes in cash and cash equivalents arising during the year from operating activities, investing activities and financing activities. The cash flows from operating activities are determined by using the indirect method. Under that method, loss before tax is adjusted for non-cash items and changes in operating assets and liabilities to determine net cash inflows or outflows from operating activities. Cash flows from investing and financing activities are determined using the direct method which directly reports the cash effects of the transactions.

1.7 Presentation of information

Where information is marked as audited, it is incorporated into these financial statements and it is covered by the Independent auditors' report.

1.8 Critical judgements and accounting estimates

The preparation of financial statements in conformity with IFRS requires management to make judgements and accounting estimates that affect the reported amount of assets and liabilities at the date of the financial statements, and the reported amount of income and expenses during the reporting period. Management evaluates its judgements and accounting estimates on an ongoing basis. This takes into account any historical experience and various other factors that are believed to be reasonable under the circumstances.

The areas noted in the table below, have a higher degree of complexity, judgement or the estimates have a significant risk of a material adjustment to the carrying amounts within the next financial year. No other significant judgements or estimates have been made in the process of applying the accounting policies. Management believe that the underlying assumptions applied as at 31 December 2021 are appropriate and that the financial statements therefore present the financial position and results of the Company fairly.

Critical judgements and accounting estimates		Note
Measurement of expected credit loss allowance	Criteria for significant increase in credit risk	34
	Use of post-model adjustments	34
	The impact of macroeconomic scenarios and weightings on the probability of default	34
Measurement of fair value of loans acquired from Retail investors in Zopa Limited's peer-to-peer lending platform	Discount rate	33

Further details, including sensitivities, can be found within the relevant notes.

1.9 New accounting standards, interpretations, and changes to accounting policies

A number of new and revised standards issued by the International Accounting Standards Board (IASB) are yet to come into effect. None of these are expected to have a material impact on the Company's financial statements.

The Company did not make any changes to its accounting policies during the year.

We have enhanced the presentation of our primary financial statements by including additional line items or combining line items where we believe it is more helpful to a reader. We have applied these presentational changes retrospectively to comparatives. Where changes have been made, they have been disclosed within the relevant notes. Given the quantitative and qualitative nature of these changes, no restatement disclosures are required.

The quantitatively material 2020 representations relate to a reclassification between operating and financing activities, a reclassification within operating activities and a reclassification between investing and financing activities, all within the statement of cash flows:

- lease repayments (£0.3m) and change in amounts due to and from other group undertakings (£4.6m) have been represented in financing activities from operating activities;
- changes in expected credit losses and other credit impairment charges (£12.8m) have been represented in non-cash items from changes in operating assets and liabilities; and
- purchase of non-current assets from related party (£9.1m) has been represented in investing activities from change in amounts due to and from other group undertakings.

There was no impact on the closing cash and cash equivalents balance.

Notes to the financial statements continued

2. Net interest income

Accounting policy

The effective interest rate (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 cash flows 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.

Interest income and expense presented in the statement of comprehensive income includes:

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

	Notes	2021 £000	2020 £000
Interest income			
Cash and balances held at central banks		**123**	23
Cash and balances held at other banks		**(2)**	1
Debt securities		**1**	—
Loans and advances to customers		**61,024**	7,204
Total interest income		**61,146**	7,228
Interest expense			
Deposits from customers		**(5,168)**	(412)
Amounts due to other banks		**(92)**	—
Amounts due to other group undertakings	17	**(80)**	(178)
Lease liabilities	19	**(126)**	(20)
Total interest expense		**(5,466)**	(610)
Net interest income		**55,680**	6,618

3. Net fee and commission expense

Accounting policy

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 the Company 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.

Where fees and commissions are incremental costs that are directly attributable to the issue of a financial instrument, they are included in interest income/expense as part of the EIR calculation, rather than within fee and commission income/expense. Where not incremental, these costs are classified as fee and commission expenses.

Fee and commission income is mainly comprised of fees charged to credit card customers and referral commission. Fee and commission expense primarily consists of transaction processing and customer eligibility assessment fees.

	2021 £000	2020 £000
Fee and commission income		
Credit cards	**2,168**	50
Referral commission	**264**	102
Total fee and commission income	**2,432**	152
Fee and commission expense	**(3,275)**	(2,072)
Net fee and commission expense	**(843)**	(1,920)

4. Other operating income

Accounting policy

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.

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.

	Notes	**2021 £000**	2020 £000
Intra-group recharges	17	**12,807**	16,114
Total operating income		**12,807**	16,114

Notes to the financial statements continued

5. Net losses on derecognition of financial assets measured at amortised cost

Accounting policy

The Company only sells financial assets if they no longer meet the Company's investment policy. This occurs when the credit rating has declined below that required by the policy. For this reason, any sale of these credit impaired loans does not give rise to a change in business model, and therefore does not impact the classification of the loan portfolio.

Losses on derecognition of financial assets includes the loss on sale of credit impaired loans, and loan write offs caused by consumer fraud. Loan write-offs due to credit risk are included in the 'Change in expected credit losses and other credit impairment charges' in the income statement.

	2021 £000	2020 £000
Loss on sale of credit impaired loans	**(1,878)**	—
Loan write-offs due to customer fraud	**(356)**	—
Net losses on disposal of assets	**(2,234)**	—

Losses on sale of credit impaired loans is the net position of the principal value of loans minus the proceeds of the sale. This loss nets against the £580k (2020: £nil) release of provision in credit losses within note 34. The net loss on disposal of assets position is £1,654k (2020: £nil).

6. Operating expenses

	Notes	2021 £000	2020 £000
Wages and salaries	7	**35,373**	23,254
Less: Capitalised development costs recognised as intangible additions		**(2,036)**	(2,570)
Legal and professional		**5,110**	1,936
Depreciation of PPE and right-of-use assets	19 & 20	**1,611**	1,132
Amortisation of intangible assets	21	**4,785**	3,184
Impairment of PPE, intangible assets and right-of-use assets		**82**	—
Information technology		**5,352**	3,370
Intra-group recharges	17	**2,453**	7,029
Loss on acquisition of loan portfolio	33	**1,341**	—
Other		**3,569**	1,080
Total operating expenses		**57,640**	38,415

Coronavirus Job Retention Scheme grants of £18k (2020: £236k) are included within other expenses. There are no unfulfilled conditions or other contingencies attached to these grants. The Company did not benefit directly from any other forms of government assistance. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

7. Wages and salaries

Wages and salaries include non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service.

Bonus costs are recognised when the Company has a present obligation that can be reliably measured. Bonus costs are recognised over the relevant service period required to entitle the employee to the reward.

The Company operates a defined contribution pension 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 below expenses are presented gross of people costs which were capitalised as part of our intangible assets. See note 21 for accounting policies on intangible asset capitalisation.

The accounting policies on share-based payments are included in note 28.

	Notes	**2021 £000**	2020 £000
Employee benefits		**28,998**	19,324
Social Security costs		**3,443**	2,343
Defined contribution pension expenses		**1,076**	667
Equity-settled share-based payments	28	**1,856**	920
Total people costs		**35,373**	23,254

The monthly average number of employees (including Directors) of the Company during the year was made up as follows:

	2021 Number	2020 Number
Loan operations and servicing	**278**	181
Administration	**174**	136
Total staff	**452**	317

8. Directors' remuneration

This table sets out emoluments and pension in respect of 2021.

	Notes	**2021 £000**	2020 £000
Directors' emoluments		**1,373**	563
Pension contributions		**36**	10
Total Directors' remuneration		**1,409**	573

The above amounts include the following in respect of the highest paid Director.

	Notes	**2021 £000**	2020 £000
Emoluments		**629**	223
Pension contributions		**36**	10
Total highest paid Director remuneration		**665**	233

Directors' emoluments are the aggregate amount of remuneration (including salary, fees, bonuses and benefits in kind) paid/payable within the year.

Pension contributions relate to payments into personal pension plans of 1 director.

There were no share-based options exercised by Directors in 2021 and 2020.

Notes to the financial statements continued

9. Independent auditors' fees

Services provided by the Company's auditors are presented excluding VAT.

All non-audit services are on the FRC's approved list of non-audit services.

	2021 £000	2020 £000
Fees payable for the statutory audit of the company's financial statements	**521**	332
Fees payable for other assurance services	**36**	7
Total fees payable to our auditors	**557**	339

Auditors' remuneration to PricewaterhouseCoopers LLP for 2021 in relation to the statutory audit includes £52k (2020: £20k) which pertains to additional fees for the prior year's statutory audit that was paid during the year.

10. Change in expected credit losses and other credit impairment charges

Accounting policy

Write-offs 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 the allowance has been raised or debt has been written-off, is recorded as a recovery and reflected as a reduction in the expected credit loss allowance reflected in the income statement. The accounting policies on expected credit losses are included in note 34.

	Notes	2021 £000	2020 £000
ECL movements and write offs on loans and advances to customers	34	**41,416**	12,631
Recoveries of loans and advances, net of collection costs		**(5)**	(23)
Increase in ECL on off-balance sheet exposures	24	**401**	180
Change in expected credit losses and other credit impairment charges		**41,812**	12,788

11. Taxation

Accounting policy

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.

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. At the balance sheet date, the Company is not recognising any deferred tax assets.

The Company is 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.

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 2021 and 2022 would remain at 19%. Deferred taxes at the reporting date have been measured using these expected tax rates and reflected in these statements.

In the 2021 Budget, the government announced that the Corporation Tax main rate (for all profits except ring fence profits) for the years starting 1 April 2023 would increase to 25%. This has been considered within deferred tax asset position.

The current tax asset is included within other assets on the statement of financial position.

11.1 Tax credit

	2021 £000	2020 £000
Current tax on losses for the year	—	—
Adjustments in respect of prior years	(1)	(9)
Total credit	(1)	(9)
Deferred Tax	—	—
Adjustments in respect of prior years	—	—
Total deferred tax charge	—	—
Total tax credit	(1)	(9)

11.2 Reconciliation of effective tax rate

The tax assessed for the year differs from that arising from applying the standard rate of corporation tax in the UK of 19%. A reconciliation from the credit implied by the standard rate to the actual tax credit is as follows:

	2021 £000	2020 £000
Loss before tax	(34,224)	(30,554)
Tax at 19.00% (2020: 19.00%)	(6,503)	(5,805)
Tax effect of:		
Non-deductible expenses for tax purposes	536	137
Adjustments in respect of prior years	(1)	(9)
Losses for which no deferred tax asset is recognised	5,794	5,559
Other differences	173	109
Total tax credit	(1)	(9)

11.3 Unrecognised deferred tax assets

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.

	2021 £000	2020 £000
Deductible temporary differences	607	—
Tax losses carried forward	16,138	10,344
Total unrecognised deferred tax assets	16,745	10,344

Notes to the financial statements continued

12. Financial instruments

Accounting policy

Recognition and derecognition

A financial asset or a financial liability is recognised on the statement of financial position when the Company becomes party to the contractual provisions of the instrument. The Company measures a financial asset or liability on initial recognition at its fair value, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability. The exception to this are financial assets or liabilities measured at Fair Value Through Profit or Loss (FVTPL), where transaction costs are recognised directly in the income statement as they are incurred. 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.

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 allowance for expected credit losses. Financial assets measured at amortised cost mainly comprise loans and advances to customers and cash and balances with other banks.

For purchased or originated credit-impaired (POCI) financial assets on initial recognition a credit-adjusted effective interest rate is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in the estimated future cash flows. When revisions to the estimates of future cash flows occur, the carrying amount of the respective financial assets are adjusted to reflect the new estimate, discounted using the original effective interest rate. Any changes are recognised in the profit or loss.

Financial assets measured at fair value through the profit or loss (FVTPL) are measured initially and subsequently at fair value. Changes in fair value are recognised in profit and loss as they arise.

The accounting policies on the expected credit loss of financial instruments are included in note 34.

Financial liabilities at amortised cost

Financial liabilities are contractual obligations to deliver cash or another financial asset. Financial liabilities are recognised 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.

Offsetting

The Company only offsets its financial assets and liabilities when it has a legally enforceable right to do so, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The net amount is then presented on the statement of financial position, either as an asset or a liability.

As at 31 December 2021 and 31 December 2020 no financial instruments have been offset in the statement of financial position.

Loan purchase

In December 2021, the Company acquired a portfolio of loans that included purchased or originated credit-impaired (POCI) loans on initial recognition. Further details are in note 33.

Financial assets pledged as collateral

The Company has pledged £397.1m (2020: £nil) of the financial assets on page 80 as encumbered collateral which can be called upon in the event of default of the TFSME and ILTR drawdowns. Further details on these Bank of England funding schemes can be found in note 22.

Notes to the financial statements continued

12. Financial instruments continued

Financial assets pledged as collateral continued

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

31 December 2021	**FVTPL £000**	**FVOCI £000**	**Amortised cost £000**	**Total £000**
Cash and balances with central bank	**—**	**—**	**191,148**	**191,148**
Cash and balances with other banks	**—**	**—**	**30,366**	**30,366**
Debt securities	**16,244**	**—**	**—**	**16,244**
Derivative financial instruments	**11**	**—**	**—**	**11**
Loans and advances to customers	**—**	**—**	**1,173,013**	**1,173,013**
Amounts due from other group undertakings	**387**	**—**	**1,421**	**1,808**
Other assets	**—**	**—**	**1,367**	**1,367**
Total financial assets	**16,642**	**—**	**1,397,315**	**1,413,957**
Deposits by customers	**—**	**—**	**968,000**	**968,000**
Amounts due to other banks	**—**	**—**	**175,193**	**175,193**
Amounts due from other group undertakings	**—**	**—**	**17,000**	**17,000**
Other liabilities	**—**	**—**	**3,891**	**3,891**
Total financial liabilities	**—**	**—**	**1,164,084**	**1,164,084**

31 December 2020 (restated)	FVTPL £000	FVOCI £000	Amortised cost £000	Total £000
Cash and balances with 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	—	—	531	531
Total financial assets	13,861	59	284,537	298,457
Deposits by customers	—	—	177,823	177,823
Amounts due to other banks	—	—	11	11
Amounts due to other group undertakings	—	—	3,128	3,128
Derivative financial instruments	97	—	—	97
Other liabilities	—	—	642	642
Total financial liabilities	97	—	181,604	181,701

The 2020 debt securities balance has been reclassified from amortised cost to FVTPL. There is no impact of this change on the statement of comprehensive income. Additionally, the 2020 other assets and other liabilities balances have been restated due to a change in classification between financial instruments and non-financial instruments.

There were no other reclassifications of financial assets or liabilities during the year ended 31 December 2021 or 31 December 2020.

13. Cash and cash equivalents

Accounting policy

Cash and cash equivalents are comprised of cash with central bank (Bank of England), cash and advances to banks and cash held in a government money market fund. Cash and cash equivalents are measured at amortised cost, using the effective interest method, adjusted for expected credit losses, and are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership.

	2021 £000	2020 £000
Cash and balances with central bank	**191,148**	35,024
Cash and balances with other banks	**30,366**	22,189
Government money market fund	**16,244**	12,243
Total cash and cash equivalents	**237,758**	69,456

All cash and cash equivalents were stage 1 assets under IFRS 9 as at 31 December 2021 and 31 December 2020. There was no expected credit loss allowance in respect of cash and cash equivalents as at 31 December 2021 (31 December 2020: nil).

14. Cash flow information

14.1 Cash generated from operations

	Notes	**2021 £000**	2020 £000
Adjustments for non-cash items:			
– Change in expected credit losses and other credit impairment charges	10	**41,812**	12,788
– Change in provisions for other liabilities and charges	24	**—**	152
– Depreciation, amortisation and impairment	6	**6,478**	4,316
– Share option charges	28	**1,856**	920
– Interest on lease	19	**126**	20
– Net exchange differences		**—**	—
– Capital contribution	27	**—**	1,618
– Other non–cash items		**556**	294
Total adjustments for non-cash items		**50,828**	20,108
Changes in operating assets and liabilities:			
– Loans and advances to customers	16	**(989,435)**	(221,806)
– Deposits by customers	23	**790,177**	177,823
– Financial instruments at fair value through profit or loss		**(290)**	168
– Prepayments and accrued income	18	**(1,009)**	225
– Accruals		**5,441**	1,934
– Other assets		**(871)**	(402)
– Other liabilities		**3,546**	388
Total changes in operating assets and liabilities		**(192,441)**	(41,671)

The statement of cashflows has been represented. Details of the presentational changes have been disclosed in note 1.9.

Notes to the financial statements continued

14. Cash flow information continued

14.2 Net debt reconciliation

The following table sets out the Company's net debt as at the balance sheet dates. It shows how the Company's indebtedness has changed over the period as a result of cash flows and other non-cash movements.

	Liabilities from financing activities			Other assets		
	Borrowings £000	Leases £000	Sub-total £000	Cash £000	Liquid investments £000	Total £000
Net debt as at 1 January 2020	(7,867)	(802)	(8,669)	2,820	17,018	11,169
Financing cash flows	(173,003)	47	(172,956)	61,664	210,022	98,730
Foreign exchange adjustments	—	—	—	—	—	—
Changes in fair values	—	—	—	—	—	—
Other changes	—	—	—	—	—	—
– Interest expense	(610)	(20)	(630)	—	7,228	6,598
– Interest payments	518	308	826	4,972	(5,798)	—
Net debt as at 31 December 2020	(180,962)	(467)	(181,429)	69,456	228,470	116,497
Financing cash flows	**(978,785)**	**—**	**(978,785)**	**121,182**	**937,976**	**80,374**
New leases	**—**	**(3,190)**	**(3,190)**	**—**	**—**	**(3,190)**
Foreign exchange adjustments	**—**	**—**	**—**	**—**	**—**	**—**
Changes in fair values	**—**	**—**	**—**	**—**	**—**	**—**
Other changes:	**—**	**—**	**—**	**—**	**—**	**—**
– Interest expenses	**(5,466)**	**(126)**	**(5,592)**	**—**	**61,146**	**55,554**
– Interest payments	**5,020**	**632**	**5,652**	**47,120**	**(52,771)**	**—**
Net debt as at 31 December 2021	**(1,160,193)**	**(3,151)**	**(1,163,344)**	**237,758**	**1,174,821**	**249,235**

15. Derivative financial instruments

Accounting policy & commentary

Derivatives are measured at fair value through profit or loss. Hedge accounting has not been adopted.

The accounting policies on fair value measurement of financial instruments are included in note 32.

The Company holds forward contracts for the purchase of foreign currencies in order to manage its exposure to foreign exchange risk, as well as the intercompany yield support derivative. These derivatives are classified as derivative financial instruments and amounts due from group undertaking respectively.

	Notes	**2021 £000**	2020 £000
Foreign currency forwards		**11**	(97)
Intercompany yield support	17	**387**	1,618
Total derivatives		**398**	1,521

16. Loans and advances to customers

The Company holds three main portfolios of loans and advances to customers:

- unsecured personal loans;
- secured auto loans (automotive hire purchase loans); and
- credit cards.

Unsecured personal loans and credit cards are loans and advances to customers, while secured auto loans are a subset of loans and advances to customers as finance lease receivables. They have been presented separately below.

Hire purchase 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 2021 (31 December 2020: no material residual values).

	2021 £000	2020 £000
Gross unsecured lending	**1,107,435**	216,168
Less: expected credit loss allowance	**(50,896)**	(11,657)
Total unsecured lending	**1,056,539**	204,511
Gross finance lease receivables	**136,558**	24,701
Less: unearned finance income	**(17,548)**	(2,803)
Net investment in finance leases	**119,010**	21,898
Less: expected credit loss allowance	**(2,536)**	(1,019)
Total finance lease receivables	**116,474**	20,879
Total loans and advances to customers	**1,173,013**	225,390

Gross finance lease loans are receivable as follows:

	2021 £000	2020 £000
Less than one year	**37,277**	7,465
One to two years	**35,497**	6,887
Two to three years	**30,598**	5,590
Three to four years	**22,455**	3,387
Four to five years	**10,731**	1,372
Total gross finance lease receivables	**136,558**	24,701

Note that this table differs to the maturity table in note 34. This is due to the above table representing the undiscounted contractual repayments of auto loans, while the table in note 34 representing the maturity profile of the net investment in finance leases.

Notes to the financial statements continued

17. Amounts due to and from other group undertakings

Intercompany balances are repayable on demand with the exception of the Zopa Group Limited open credit facility and the yield support derivative. The Zopa Group Limited open credit facility has a final repayment date of 7 December 2023. The credit facility bears interest equal to 2%.

The accounting policies on the intercompany derivative are included in note 32.

2021	Income £000	Expenditure £000	Amounts due from group undertakings £000	Amounts due to group undertakings £000
Zopa Group Limited – trading balances	524	—	70	—
Zopa Group Limited – Intercompany loan	—	53	—	17,000
Zopa Limited – intercompany loan	—	27	—	—
Zopa Limited – trading balances	12,283	2,453	1,351	—
Zopa Limited – yield support derivative	—	152	387	—
Total	**12,807**	**2,685**	**1,808**	**17,000**

All trading balances have been settled in full post year end.

2020	Income £000	Expenditure £000	Amounts due from group undertakings £000	Amounts due to group undertakings £000
Zopa Group Limited – trading balances	596	125	44	—
Zopa Group Limited – Intercompany Loan	—	44	—	—
Zopa Limited – intercompany loan	—	134	—	3,128
Zopa Limited – trading balances	15,518	6,904	1,418	—
Zopa Limited – yield support derivative	—	—	1,618	—
Total	16,114	7,207	3,080	3,128

18. Prepayments and accrued income

	2021 £000	2020 £000
Prepayments	2,439	1,473
Accrued income	50	7
Total prepayments and accrued income	2,489	1,480
Current portion	1,813	959
Non-current portion	676	521

19. Right-of-use assets and lease liabilities

Accounting policy & commentary

The Company leases various property for office space and data centres.

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.

Lessee 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).

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, the Company determined its incremental borrowing rate to be 10%.

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 initial direct costs, and
- restoration costs.

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.

In September 2021 the Company entered into a lease agreement for office space. Previously, the office space was leased by Zopa Limited, with a proportion of the lease costs recharged to the Company.

19.1 Right-of-use assets

	2021 £000	2020 £000
Balance as at 1 January	**511**	889
Additions	**3,785**	91
Disposal	**—**	(174)
Depreciation charge for the year	**(770)**	(295)
Balance as at 31 December	**3,526**	511

Notes to the financial statements continued

19. Right-of-use assets and lease liabilities continued

19.2 Lease liabilities

	2021 £000	2020 £000
Balance as at 1 January	**467**	802
Additions	**3,190**	90
Interest charged during the year	**126**	20
Disposals	**—**	(137)
Payments during the year	**(632)**	(308)
Balance as at 31 December	**3,151**	467
– of which is current	**2,112**	205
– of which is non-current	**1,039**	262

The maturity profile of undiscounted contractual cash flows is as follows:

	2021 £000	2020 £000
Less than one year	**2,112**	214
One to two years	**1,039**	214
Two to three years	**—**	39
Three to four years	**—**	—
Four to five years	**—**	—
More than five years	**—**	—
Total undiscounted lease liabilities	**3,151**	467

19.3 Amounts recognised in the income statement

	Notes	2021 £000	2020 £000
Interest expense	2		
Interest on lease liabilities		**(126)**	(20)
Operating expenses	6		
Depreciation of right-of-use assets		**(770)**	(308)
Total amounts recognised in the income statement		**(896)**	(328)

20. Property, plant and equipment

Accounting policy

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.

We depreciate property, plant and equipment on a straight-line basis to its residual value using the following useful economic lives:

- office equipment 3–5 years; and
- 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.

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.

Notes to the financial statements continued

20. Property, plant and equipment continued

2021	Office equipment £000	Fixtures and fittings £000	Total £000
Cost			
Balance as at 1 January	**2,968**	**15**	**2,983**
Additions	**467**	**52**	**519**
Balance as at 31 December	**3,435**	**67**	**3,502**
Accumulated depreciation			
Balance as at 1 January	**1,597**	**10**	**1,607**
Depreciation charge for the year	**828**	**13**	**841**
Balance as at 31 December	**2,425**	**23**	**2,448**
Net book value	**1,010**	**44**	**1,054**

2020	Office equipment £000	Fixtures and fittings £000	Total £000
Cost			
Balance as at 1 January	2,232	66	2,298
Additions	211	—	211
Transferred from related party	615	15	630
Disposals	(90)	(66)	(156)
Balance as at 31 December	2,968	15	2,983
Accumulated depreciation			
Balance as at 1 January	831	50	881
Disposals	(45)	(66)	(111)
Depreciation charge for the year	811	26	837
Balance as at 31 December	1,597	10	1,607
Net book value	1,371	5	1,376

21. Intangible assets

Accounting policy & commentary

Banking License

The banking license 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 due to the Company's business model requiring the banking license to operate as a Bank.

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 precedent transactions for comparable businesses. Where impairment is required, the amount is recognised in the income statement and cannot be subsequently reversed.

Other intangible assets

Includes both purchased and internally generated intangibles. Purchased intangibles includes technology assets. Purchased intangible assets are recognised at historic cost and amortised over their useful life.

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 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 three 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

If impairment is indicated, the asset's recoverable amount, being the greater of value in use 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.

2021	Purchased brand £000	Purchased software £000	Internally generated £000	Banking license £000	Total £000
Cost					
Balance as at 1 January	3,331	165	11,151	1,973	16,620
Additions	—	—	2,036	—	2,036
Write-offs	—	—	(164)	—	(164)
Balance as at 31 December	3,331	165	13,023	1,973	18,492
Accumulated amortisation					
Balance as at 1 January	2,313	59	2,065	—	4,437
Amortisation charge for the year	1,018	42	3,725	—	4,785
Write-offs	—	—	(82)	—	(82)
Balance as at 31 December	3,331	101	5,708	—	9,140
Net book value	—	64	7,315	1,973	9,352

Notes to the financial statements continued

21. Intangible assets continued

2020	Purchased brand £000	Purchased software £000	Internally generated £000	Banking license £000	Total £000
Cost					
Balance as at 1 January	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 as at 31 December	3,331	165	11,151	1,973	16,620
Accumulated amortisation					
Balance as at 1 January	1,204	25	24	—	1,253
Amortisation charge for the year	1,109	34	2,041	—	3,184
Balance as at 31 December	2,313	59	2,065	—	4,437
Net book value	1,018	106	9,086	1,973	12,183

Transfers (from)/to in 2020 relates to the reclassification of assets purchased from a related party and subsequently enhanced and developed internally to be ready for use.

22. Amounts due to banks

Deposits from central banks consists mainly of amounts drawn down under the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME). Additionally, there have been drawdowns under the Bank of England's Indexed Long-Term Repo (ILTR) scheme.

	2021 £000	2020 £000
Amounts drawn down under TFSME	**150,046**	—
Amounts drawn down under ILTR	**25,046**	—
Amounts due to other banks	**101**	11
Total amounts due to central banks	**175,193**	11

23. Deposits by customers

	2021 £000	2020 £000
Demand deposits	**12,896**	—
Term deposits	**955,104**	177,823
Total deposits by customers	**968,000**	177,823

24. Provisions

Accounting policy & commentary

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.

The accounting policies relating to the off-balance sheet expected credit loss of financial instruments disclosed below, are included in note 34.

Dilapidations relates to the cost expected to be incurred to return the property back to the landlords at their initial state when the lease ends in 2023. The FCA levy are fees due to regulators for banking service and are settled annually. Off balance sheet expected credit losses (ECL), relate to provisions on undrawn credit card balances.

2021	**Dilapidations £000**	**FCA levy £000**	**Off–balance sheet ECL £000**	**Total £000**
Balance as at 1 January	**72**	**152**	**180**	**404**
Additions	**567**	**—**	**581**	**1,149**
Released in the year	**—**	**—**	**(180)**	**(180)**
Balance as at 31 December	**639**	**152**	**581**	**1,372**

2020	Dilapidations £000	FCA levy £000	Off–balance sheet ECL £000	Total £000
Balance as at 1 January	103	—	—	103
Additions	—	152	180	332
Utilised in the year	(31)	—	—	(31)
Balance as at 31 December	72	152	180	404

Movements in dilapidations and off-balance sheet ECL provisions are included in lease liabilities and change in expected credit losses and other credit impairment charges respectively.

The off-balance sheet ECL were included in other liabilities within the prior year financial statements. Additionally, the movement in provisions has been disclosed on a new line in the statement of comprehensive income. The charge was previously included in operation expenses.

25. Other liabilities

	2021 £000	2020 £000
Other taxation and social security	**1,178**	901
Trade creditors	**1,308**	203
Other creditors	**2,627**	463
Total other liabilities	**5,113**	1,567
Current portion	**5,113**	1,567

Notes to the financial statements continued

26. Called-up share capital

	2021 £000	2020 £000	2021 Shares	2020 Shares
Called-up ordinary share capital, issued and fully paid				
Ordinary shares of £1 each	**349,319**	192,319	**349,319,069**	192,319,069
Total called-up share capital	**349,319**	192,319	**349,319,069**	192,319,069

Within the year 157,000k (2020: 138,159k) £1 shares were issued and paid for by Zopa Group Limited, the Company's parent.

27. Other reserves

The capital contribution reserve was formed in 2020 and is 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. The accounting policies regarding the measurement of the intercompany yield support are included in note 32.

The accounting policies on the share schemes are included in note 28.

	Share schemes £000	Capital contribution £000	Total £000
Balance as at 1 January 2020	1,786	—	1,786
Share options movement	920	—	920
Intercompany yield support movement	—	1,618	1,618
Balance as at 31 December 2020	2,706	1,618	4,324
Balance as at 1 January 2021	**2,706**	**1,618**	**4,324**
Share options movement	**1,856**	**—**	**1,856**
Balance as at 31 December 2021	**4,562**	**1,618**	**6,180**

28. Share schemes

Accounting policy

The Company's share option schemes are in the form of equity-settled share-based payments. 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 which is calculated using a Black-Scholes model.

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.

Equity-settled share-based compensation benefits are provided to employees of Zopa Group's subsidiaries via options granted under the Zopa Group Limited Company Share Option Plan (CSOP), the Zopa Group Limited Joint Share Option Plan (JSOP), the Non-Tax Advantaged Share Option Plan (NTA options) and the Management Incentive Plan (MIP). They are all granted, and equity settled by the parent company, Zopa Group Limited. Since employees of the Company also provide services to other entities within the Group, the share-based payment recorded in the income statement reflects the proportion of the services provided to the Company.

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.

2021	**NTA options £000**	**CSOP £000**	**JSOP £000**	**MIP £000**	**Total £000**	**Weighted average exercise price number**
Balance at 1 January	**1,232,324**	**—**	**1,569,905**	**6,657,500**	**9,459,729**	**3.4127**
Granted	**350,500**	**—**	**3,309,225**	**832,500**	**4,492,225**	**5.1055**
Exercised	**(107,090)**	**—**	**—**	**—**	**(107,090)**	**1.9844**
Employee Transfer	**(8,273)**	**—**	**6,834**	**—**	**(1,439)**	**6.38**
Lapsed	**(70,552)**	**—**	**(44,101)**	**(350,000)**	**(464,653)**	**2.3158**
Balance at 31 December	**1,396,909**	**—**	**4,841,863**	**7,140,000**	**13,378,772**	**3.951**
Range of exercise prices (£)	**0.77 – 7.00**	**—**	**2.80 – 7.00**	**—**	**0.77 – 7.00**	**—**
Weighted average remaining contractual life (years)	**6.35**	**—**	**8.32**	**8.61**	**8.27**	**—**
Exercisable options at 31 December	**1,042,893**	**—**	**2,102,877**	**2,095,625**	**5,241,395**	**3.5818**

2020 (restated)	NTA options £000	CSOP £000	JSOP £000	MIP £000	Total £000	Weighted average exercise price number
Balance at 1 January	384,122	461,685	475,452	—	1,321,259	3.6703
Granted	177,938	—	—	6,657,500	6,835,438	3.4089
Exercised	(85,566)	(300)	—	—	(85,866)	1.0070
Modified instruments	416,326	(812,541)	396,215	—	—	—
Employee transfer	385,102	791,227	705,873	—	1,882,202	2.9430
Lapsed	(45,598)	(440,071)	(7,635)	—	(493,304)	3.9726
Balance at 31 December	1,232,324	—	1,569,905	6,657,500	9,459,729	3.4127

The above 2020 table has been restated to correct for identified omissions.

Notes to the financial statements continued

28. Share schemes continued

For options granted during the year the weighted average fair value of the options at the measurement date was £0.7580.

For share options exercised during the year, the weighted-average share price at the date of exercise was £4.3528 (2020: £3.1696).

The inputs into the Black Scholes option pricing model for grants or modifications are as follows:

	2021	2020
Expected volatility	**47-48%**	30-42%
Expected life (years)	**5**	5
Weighted average share price	**£4.4855**	£3.1696
Exercise price	**£3.50-£7.00**	£3.50-£4.50
Expected dividends	**None**	None
Risk free rate	**0.4%-0.8%**	(0.1%)-0.4%

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.

The share-based payment charge in the year was £1,856k (2020: £920k).

29. Related parties

Key management personnel

IAS 24 Related party disclosures requires additional information for key management compensation. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Directors are considered to be the key management personnel for disclosure purposes. Directors' remuneration is disclosed within note 8. The-share-based compensation expense recognised during the year attributable to Directors amounted to £755k (2020: £256k). In total, the key management personnel compensation amounted to £2,164k in 2021 (2020: £829k).

Transactions and outstanding balances relating to other Group companies has been disclosed within note 17.

Other transactions with related parties

Loans and advances to customers includes a balance of £8k (2020: £1k) on credit cards issued to key management personnel.

Following the change in control of Zopa Group Limited in June 2020 an existing customer and a supplier became a related party. Fee and Commission expense of £11k (2020: £5k) and Fee and Commission income of £237k (2020: £81k) were recognised during the year. An outstanding balance of £nil (2020: £1k) was due to the related supplier and £46k (2020: £62k) was due from the related customer as at 31 December 2020. These amounts are included in other liabilities and other assets respectively.

In 2020, 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.

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

30. Ultimate controlling party

Zopa Group Limited (UK Company number 10624955) holds 100% of the issued capital of Zopa Bank Limited and as at 31 December 2021 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.

IAG Silverstripe Partners LLC (incorporated in the United States of America) is considered to be the ultimate parent and controlling party.

31. Contingent liabilities and commitments

Accounting policy

Customer credit commitments are granted as part of normal product facilities which are offered to customers. Customer commitments comprise undrawn facilities granted on credit cards and approved secured auto loans. Even though these obligations are not recognised on the balance sheet, they do contain credit risk and an ECL is calculated and recognised for them (see note 34). When these commitments are drawn down or called upon, and meet the recognition criteria as detailed in note 12, these are recognised within loans and advances to customers.

Purchase commitments represent the future minimum lease payments under non-cancellable contracts outside the scope of IFRS 16 leases. Note 19 provides information on financial commitments where the Company is a lessee as per IFRS 16 leases.

	2021 £000	2020 £000
Loans and advances to customers commitments		
– Undrawn credit card commitments	**33,513**	5,534
Finance lease commitments		
– Finance lease agreements to lend in the future	**1,160**	—
Purchase commitments:		
Under one year	**3,470**	3,569
Between one and five years	**3,686**	5,807
Over five years	**—**	39
Total contingent liabilities and commitments	**41,829**	14,949

32. Fair value of financial instruments

Accounting policy

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which we have access at that date. The fair value of a liability reflects its non-performance risk.

The fair values of financial instruments are measured using 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 that include one or more unobservable input that is significant to the measurement as whole.

Notes to the financial statements continued

32. Fair value of financial instruments continued

2021	Carrying value £000	Level 1 (quoted market price) £000	Level 2 (using observable inputs) £000	Level 3 (significant unobservable inputs) £000	Total fair value £000
Cash and balances with central banks	191,148	191,148	—	—	191,148
Cash and balances with other banks	30,366	30,366	—	—	30,366
Debt securities	16,244	16,244	—	—	16,244
Derivative financial instruments	11	—	11	—	11
Loans and advances to customers	1,173,013	—	—	1,167,287	1,167,287
Amounts due from other group undertakings	1,808	—	—	1,808	1,808
Other assets	1,367	—	—	1,367	1,367
Total financial assets	1,413,957	237,758	11	1,170,462	1,408,231
Deposits by customers	968,000	—	—	968,000	968,000
Amounts due to other banks	175,193	175,193	—	—	175,193
Amounts due to other group undertakings	17,000	—	—	17,000	17,000
Other liabilities	3,891	—	—	3,891	3,891
Total financial liabilities	1,164,084	175,193	—	988,891	1,164,084

2020	Carrying value £000	Level 1 (quoted market price) £000	Level 2 (using observable inputs) £000	Level 3 (significant unobservable inputs) £000	Total fair value £000
Cash and balances with central banks	35,024	35,024	—	—	35,024
Cash and balances with other banks	22,189	22,189	—	—	22,189
Debt securities	12,243	12,243	—	—	12,243
Loans and advances to customers	225,390	—	—	234,094	234,094
Amounts due from other group undertakings	3,080	—	—	3,080	3,080
Other assets	531	—	—	531	531
Total financial assets	298,457	69,456	—	237,705	307,161
Deposits by customers	177,823	—	—	177,823	177,823
Amounts due to other banks	11	11	—	—	11
Amounts due from other group undertakings	3,128	—	—	3,128	3,128
Derivative financial instruments	97	—	97	—	97
Other liabilities	642	—	—	642	642
Total financial liabilities	181,701	11	97	181,593	181,701

Key considerations in the calculation of the disclosed fair values for the above financial assets and liabilities are as following:

- 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;
- 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 not be materially different from their fair value;
- UPL and auto loans and advances to customers – For fixed rate lending products, the Company has forecast cash flows for the portfolios over the loans lives. The fair value of the loans has been completed by discounting those cash flows by the current appropriate market reference rate. We deem this to be the discount rate which exactly discounts projected cash flows of December 2021 originated loans to a net present value of zero, with an adjustment to account for the lack of active market for the loan portfolio. This approach is consistent to that applied on the Retail loan book purchase. The discount rate assumption has been sensitised below;
- credit cards loans and advances to customers have no contractual maturity and intercompany balances are repayable on demand. Therefore, their carrying value is not considered to be materially different from their fair value;
- 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;
- derivatives held for risk management – These represent foreign currency forward contracts which are carried at fair value. An equivalent quoted forward rate with similar term is used to calculate the fair value as at 31 December 2021; and
- yield support derivative (£387k included within amounts due from group undertakings) – Relates to an intercompany balance which is carried at fair value. A discounted cash flow model is used to estimate its fair value. Inputs to this model include the amortisation of the notional loan amounts, their expected life and the yield support rate, which are unobservable inputs that require management judgement.

Discount rate sensitivity

	Sensitivity of discount percentage into Level 3 fair value estimate				
2021	**-1.0% £m**	**-0.5% £m**	**Base case £m**	**+0.5% £m**	**+1.0% £m**
Loans and advances to customers	**1,176.8**	**1,172.0**	**1,167.3**	**1,162.7**	**1,158.2**
Movement	**9.5**	**4.7**	**—**	**(4.6)**	**(9.1)**

Notes to the financial statements continued

33. Loan portfolio acquisition

In December 2021, the Company acquired a loan portfolio consisting of both unsecured personal loans and hire purchase auto loans. These were purchased from Retail investors serviced by Zopa Limited's peer-to-peer lending platform, utilising a contractual clause of the loans which enabled the Company to purchase loans from investors at an amount equal to their principal value.

Since each loan was purchased at their principal value, which does not represent a market transaction, the fair value of the loans does not equal the purchase price of the loans. As a result, the fair value of the loans has been estimated using IFRS 13 fair value methodology which is disclosed in note 32. No market observable inputs existed across the portfolio, and as such, they have been measured using a discounted cash flow model. Inputs into this calculation include:

- carrying value of loans acquired;
- discount rate;
- paydown rate; and
- forward write off and recovery rates.

The discount rate used in this calculation is the discount rate which exactly discounts projected cash flows of December 2021 originated loans to a net present value of zero, with an adjustment to account for the lack of active market for the loan portfolio. This combined rate was deemed to be 6.86%. This assumption has been sensitised below.

For some credit impaired Stage 3 loans, the estimate of fair value was made using the debt sale proceeds achieved for similar loans in the most recent debt sales completed by the Company. The key inputs into this calculation include:

- carrying value of loans acquired; and
- proceeds of a recent debt sale of credit impaired loans divided by their carrying value.

Loan acquisition initial values

		Fair value at acquisition			
2021	Purchase price (principal value) £m	Level 1 (Quoted market price) £m	Level 2 (using observable inputs) £m	Level 3 (significant unobservable inputs) £m	Total fair value £m
Purchased loans	346.9	—	—	345.6	345.6

Discount rate sensitivity

	Sensitivity of discount percentage into Level 3 fair value estimate				
2021	-1.0% £m	-0.5% £m	Base case (6.86%) £m	+0.5% £m	+1.0% £m
Purchased loans	348.9	347.2	345.6	344.0	342.4
Movement	3.3	1.6	0.0	(1.6)	(3.2)

The £1.3m loss on acquisition is included in operating expenses in note 6.

34. Financial risk management

34.1 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.

34.1.1 Governance around ECL allowance

The IFRS 9 ECL models used by the Company have been developed in-house by our Credit Risk team and validated by our Model Risk team. As explained further in note 34.1.3 below, the determination of expected credit losses is inherently judgemental and requires management to make significant judgements and estimates. To ensure that these judgements and estimates remain appropriate, the Company has in place a robust governance framework around ECL allowance. The main components of that framework are as follows:

- **Board Audit Committee (BAC)** – reviews and challenges the appropriateness of significant judgements and critical estimates made by management, including the ECL allowance.
- **Board Risk Committee (BRC)** – reviews and challenges the appropriateness of the base case and outer macroeconomic scenarios, and scenario weightings used in the measurement of ECL. The committee also reviews and challenges any significant modelling assumptions and inputs.
- **Risk Management Committee** – reviews and challenges material new models and required model changes. It also reviews and challenges results of model performance monitoring and resulting actions proposed by model owners. It delegates certain responsibilities over less material models to the Credit and Model Risk Subcommittee. RMC also reviews and challenges the base case economic scenario and outer macroeconomic scenarios, and scenario weightings.
- **Credit and Model Risk Subcommittee (CMRC)** – responsible for monitoring of credit risk and its impact on the measurement of ECL. It also reviews and challenges results of model performance monitoring and resulting actions proposed by model owners.

The reasonableness of the ECL allowance is assessed at least quarterly and includes:

- performance monitoring of ECL models against actual outcomes;
- monitoring of trends against budgets and forecasts;
- stand-back assessment comparing the level of coverage ratios against actual credit losses; and
- benchmarking key ratios against the wider market and banks of a similar size.

Notes to the financial statements continued

34. Financial risk management continued
34.1 Credit risk continued
34.1.2 Measurement of ECL
The approach set out in this note applies to:

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

The determination of expected credit losses is complex and requires the use of models, as exposure varies with changes in market conditions, expected cash flows and the passage of time. We measure ECL by assessing Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). The loan or credit card APR is used as the discount rate as an approximation to the effective interest rate. The impact of not using the effective interest rate is not material.

Factor	Description
Probability of Default (PD)	We have developed PD models tailored to each product type to assess the likelihood of default within the next 12 months and over the lifetime of each loan or credit card account. The models calculate estimates of PD based upon the latest payment behaviour of the customer on the Zopa product, information from the Credit Reference Agencies (CRAs) and product specific characteristics. The PD model also includes an estimate of the future macroeconomic effect.
Exposure at Default (EAD)	We have developed an EAD model for the Credit Cards product to assess the likely exposure at default. The model calculates estimates of EAD based upon the latest payment behaviour of the customer, the credit limit utilisation, information from the CRAs and product specific characteristics. For Unsecured Personal Loans (UPL) and Secured Auto Loans (Auto), the EAD estimate is based on the outstanding balance of the account at observation and the contractual paydown schedule of the account taking into account any missed payments before default.
Loss Given Default (LGD)	We have developed LGD models tailored to each product type to assess the likely financial loss given an account defaults. The models calculate estimates of LGD based on historical data on observed recoveries against defaulted accounts or benchmark information obtained from third parties. The estimates include the expected benefit of debt sales. Adjustments to these estimates are made depending on the macroeconomic scenario.
Discount rate	We use the loan or credit card APR as the discount rate as an approximation to the effective interest rate.

Forecast period
We estimate PD, EAD and LGD for the duration of the lifetime of the loan or credit card account. For UPL and Auto, the duration of the lifetime is determined by the length of the loan term. For Credit Cards, the duration of the lifetime is estimated to be eight years.

Forward-looking information
We use forecasts on key macroeconomic indicators to estimate the macroeconomic effect on PD. The key indicators that are used are Employment related metrics and Household Debt and Income information. The model used to estimate the macroeconomic effect is a component of the PD model and has been developed on historical data obtained from a Credit Reference Agency.

We use four different macroeconomic scenarios to estimate the future macroeconomic effect, named Scenarios 1 to 4. Scenario 1 is an Upside scenario, Scenario 2 is the Baseline scenario and Scenarios 3 and 4 are both Downside scenarios. The macroeconomic scenarios are provided by an external, third-party expert. The scenarios are updated on a quarterly basis.

34.1.3 Management judgements in measurement of ECL
At the end of 2021, the key management judgement related to a post-model adjustment addressing the potential impact of the rising inflation in the UK. Inflation is not one of the macroeconomic indicators used to estimate the macroeconomic effect on PD. For this reason, we decided to apply a post-model adjustment to increase the ECL allowance held in anticipation of the impact of rising inflation on households' financials.

We use other post-model adjustments to account for the impact of scheduled changes to the UPL PD and LGD models and to the Cards PD model.

34.1.4 Significant increase in credit risk (SICR)

The estimated ECL is a function of all factors mentioned above. The performing loans and credit card accounts are split into Stage 1 and Stage 2 depending on whether a significant increase in credit risk is observed. For Stage 1 loans and credit card accounts, we calculate ECL based on the next 12 months of expected credit losses. For Stage 2 and Stage 3 loans and credit card accounts, we calculate ECL based on the lifetime expected credit losses. There are both quantitative and qualitative criteria to determine whether an account is showing evidence of significant increase in credit risk.

Quantitative criteria

The quantitative criteria are based on a comparison between the latest PD estimate for the remaining lifetime of a loan or credit card account and the lifetime PD estimate at the point of initial recognition, which is either the point of the loan or credit card origination or the point of its purchase.

Qualitative criteria

Across all products, any loan or credit card that is in forbearance is assigned to Stage 2. In UPL and Auto, any loan that is 1 day past due is assigned to Stage 2.

Backstop criteria

Across all three products, any loan or credit card account that is 30 days past due is assigned to Stage 2.

Improvement in credit risk or cure

There is no cure period assumed for loans or credit card accounts showing evidence of improvement in credit risk. This means that any account that does not meet the SICR criteria, is assigned to Stage 1.

34.1.5 Definition of default and credit impaired

The definition of default is consistent with the definition used to determine whether a loan or credit card account is credit impaired. Therefore, all defaulted accounts are assigned to Stage 3. In UPL and Credit Cards, an account is considered as defaulted if it is 90 days past due or the borrower is unlikely to pay, i.e. the loan is subject to bankruptcy, Individual Voluntary Agreement (IVA), or any other form of insolvency, the loan is fraudulent, or the borrower is deceased. In Auto, a loan is considered as defaulted if it is 60 days past due or the borrower is unlikely to pay.

34 1.6 Forbearance and exit from forbearance or cure

The Bank encourages borrowers who are experiencing financial difficulties to draw up an affordable payment plan to pay down their arrears over time. Payment plans may offer temporary relief in the form of reductions to contractual payments. Any loan or credit card account in forbearance is assigned to Stage 2. At the end of the payment plan, a loan or credit card account can only be assigned to Stage 1 if the balance in arrears that is accumulated for the duration of the payment plan is cleared.

34.1.7 Purchased or Credit-Impaired (POCI) loans

As part of the purchase of loans from retail investors in Zopa Limited's peer-to-peer platform in December 2021 (refer to note 31 for further detail), we purchased a portfolio of credit-impaired loans (POCI). Expected credit losses on a POCI portfolio are not measured using the general model under IFRS 9. Instead, impairment on a POCI portfolio is determined based on full lifetime ECL. The lifetime ECL on initial recognition is included in the estimated cash flows when calculating the credit-impaired effective interest rate. Thus, no loss allowance is recognised on initial recognition. Subsequently, the reported ECL allowance on POCI loans represents the change in lifetime ECL since the purchase date.

Loans classified as POCI must remain in POCI until they are de-recognised. Therefore, the ECL measurement approach remains consistent throughout the life of these loans.

Notes to the financial statements continued

34. Financial risk management continued

34.1 Credit risk continued

34.1.8 Multiple economic scenarios and scenario weightings

Baseline scenario

As mentioned above, the macroeconomic scenarios are provided by a third-party expert. The Baseline scenario (or Scenario 2) is aligned to the consensus of forecasts of key macroeconomic indicators of the UK economy. The Unemployment Rate is expected to stabilise at 4.1% in 2022, which is slightly higher than the pre-COVID-19 levels. This could be driven by a permanent effect that the pandemic has brought to the economic activity being driven away from high street locations and city centres. The inflationary pressures are putting a pressure on household finances, but the effect is largely mitigated through higher savings accumulated over the last two years. New COVID-19 variants cause economic uncertainty, but do not lead to a new lock-down. The scenario weighting assigned to the Baseline scenario is 60%.

Outer scenarios

One upside scenario

Under the Upside scenario (or Scenario 1), the economic activity continues to recover and Unemployment Rate continues to decrease reaching 3.6% in second half of 2022. This could be driven by a continuously high number of vacancies due to further labour shortages. Further, the inflationary pressures are offset by the increased savings that consumers have accumulated through COVID-19, which means that the impact on their finances is small. The effect of new COVID-19 variants that appear can be mitigated relatively easily with new measures that do not restrict the economic activity. The scenario weighting assigned to the Upside scenario is 20%.

Two downside scenarios

Under the Downside 1 scenario (or Scenario 3), the economic activity recovers in the short term, but only to deteriorate in the medium term with Unemployment Rate peaking in Q2 2023 at 6.2%. This could be driven by a new COVID-19 variant that the vaccines are not effective against. It could also be driven by more inflationary pressures or the impact of the new UK/EU trade agreement that could be worse than expected on the UK economy. The scenario weighting assigned to the Downside 1 scenario is 15%.

The Downside 2 scenario (or Scenario 4) is aligned to Bank of England's Solvency Stress Test scenario published in January 2021 with the peak of Unemployment Rate assumed to be in the 2nd half of 2022. The Unemployment Rate peaks at 11.9% and it won't drop to below 6.5% until 2025, as the COVID-19 impact is severe not only in the UK but across the world. The UK's major trade partners experience a synchronised weakening in the economy and as a result world trade is very weak for the first two years. In the UK, internal consumption remains weak as consumer confidence remains low for the same time period. The scenario weighting assigned to this scenario is 5%.

Key changes to scenarios in 2021

There are three key changes to the scenarios, namely:

1. the scenario weighting of the Downside 1 scenario reduced from 25% to 15% and that of the Baseline scenario increased to 60% from 50%;
2. the peak Unemployment Rate across all scenarios has decreased materially. As an example, the peak Unemployment Rate in the Baseline scenario was at 7.5% at the end of 2020, but is now at 4.1%; and
3. the rise in inflation could lead to a suppression of households' finances and as a result inflation is a key macroeconomic indicator that we are now monitoring.

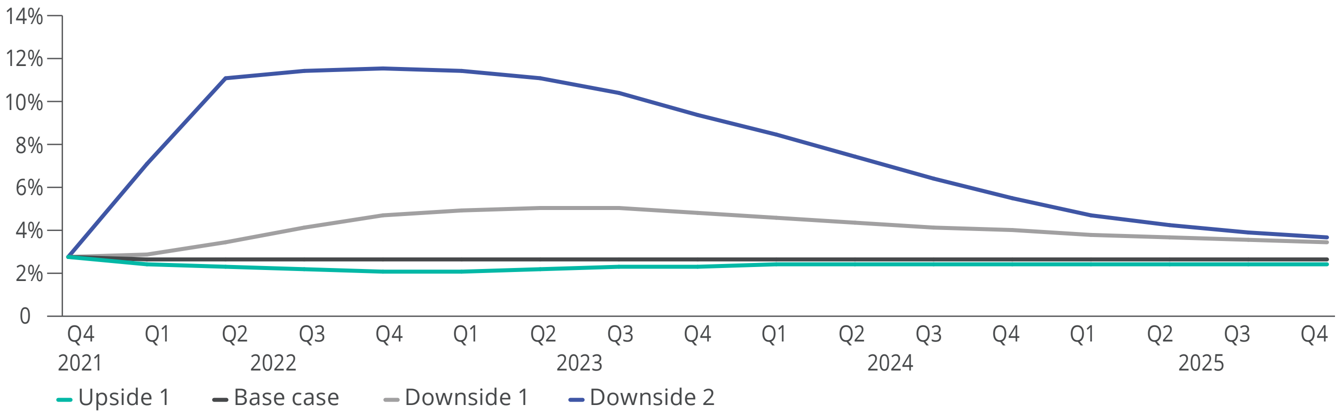
The first two changes were driven by a material improvement in the outlook for the UK economy since the end of 2020. The improved outlook was a result of the good progress of the vaccination programme in the UK and the effectiveness of the government job support scheme. Further, the latest data points in the employment market for the period after the end of the job support scheme are very encouraging and support our current outlook.

Macroeconomic assumptions

The table below summarises the key macroeconomic indicators by scenario.

Detailed assumptions		Upside 1	Baseline	Downside 1	Downside 2
GDP	2022	5.2%	2.5%	(1.5%)	(3.6%)
	2023	2.4%	2.0%	3.7%	2.9%
Unemployment rate	2022	3.6%	4.1%	5.9%	11.9%
	2023	3.8%	4.1%	6.0%	10.0%
Debt to income	2022	51.7%	55.0%	56.8%	59.3%
	2023	51.5%	58.2%	61.0%	63.9%
Claimant count	2022	3.0%	3.5%	6.6%	10.3%
	2023	3.2%	3.4%	4.8%	8.8%

Unemployment Rate by scenario



Change over the forecast period			Upside 1	Base case	Downside 1	Downside 2
GDP	Five-year average increase/decrease	2022	13.3%	9.9%	8.8%	6.6%
	Cumulative growth/(fall) to peak/(trough)	2023	2.4%	2.0%	3.7%	2.9%
Unemployment rate	Five-year end period	2022	3.9%	4.1%	4.5%	4.8%
	Peak/(trough) at	2023	4.3%	4.3%	6.2%	11.9%
Debt to income	Five-year end period	2022	50.9%	58.4%	62.6%	65.3%
	Peak/(trough) at	2023	51.9%	58.4%	62.6%	65.3%
Claimant count	Five-year end period	2022	3.4%	3.5%	3.8%	5.3%
	Peak/(trough) at	2023	5.4%	5.4%	6.6%,	10.3%

Notes to the financial statements continued

34. Financial risk management continued

34.1 Credit risk continued

34.1.8 Multiple economic scenarios and scenario weightings continued

Scenario weightings

The table below shows the comparison of scenario weights.

	Upside 1	Base case	Downside 1	Downside 2
2021	**20%**	**60%**	**15%**	**5%**
2020	20%	50%	25%	5%

Sensitivity of ECL allowance

The table below shows the sensitivity of the ECL to each of the macroeconomic scenarios. In each economic scenario, the ECL for post-model adjustment is constant reflecting the basis on which they are evaluated.

	Weighted	Upside 1	Base case	Downside 1	Downside 2
2021					
Exposure			**1,261,118**		
ECL	**54,013**	**49,415**	**52,027**	**62,878**	**83,712**
Proportion of assets in stage 2	**4.8%**	**4.6%**	**5.0%**	**7.6%**	**13.6%**
2020					
Exposure			243,600		
ECL	12,856	9,470	11,835	14,115	18,203
Proportion of assets in stage 2	2.9%	3.1%	4.5%	6.0%	16.7%

As mentioned above, we hold a post-model adjustment related to inflation. The table below shows the sensitivity of ECL to scenarios on inflation.

For the calculation of the sensitivity of ECL to inflation, we have used our latest Severe Downside scenario (Downside 2) to stress the cost of living, the cost of rent, the monthly mortgage repayments (for mortgages that are linked to the Bank of England's base rate) and the real values of income. The stress applied is based on the scenario's expectation of inflation, which was 6.2% at the peak in 2022. The resulting expected decrease in real values of income is 7.5% through 2022 The result is that some loans and cards in our portfolio are deemed as more vulnerable to the increase in inflation. In order to calculate the ECL impact of such a scenario, we assumed that all of the impacted loans and cards would be moved to Stage 2.

	Weighted £m	Downside 2 £m
2021		
Incremental ECL	**2.5**	**27.2**

34.1.9 Maximum and net exposure to credit risk

The tables below set out the main differences between our maximum and net exposure to credit risk on financial assets, including the effects of collateral.

For On-balance sheet disclosures, the maximum exposure to credit risk is the carrying value after ECL allowance.
For Off-balance sheet disclosures, the maximum exposure to credit risk is the total amount of the financial commitment after ECL allowance.

	On-balance sheet assets			Off-balance sheet assets				
2021	**Gross balances £000**	**Loss allowance £000**	**Net balance £000**	**Gross balances £000**	**Loss allowance £000**	**Net balance £000**	**Non-cash collateral £000**	**Net exposure £000**
Cash and cash equivalents:								
– Central banks	**191,148**	**—**	**191,148**	**—**	**—**	**—**	**—**	**191,148**
– Other banks	**30,366**	**—**	**30,366**	**—**	**—**	**—**	**—**	**30,366**
– Debt securities	**16,244**	**—**	**16,244**	**—**	**—**	**—**	**—**	**16,244**
Financial assets at fair value through profit or loss:								
– Derivative financial instruments	**11**	**—**	**11**	**—**	**—**	**—**	**—**	**11**
Financial assets at amortised cost:								
– Loans and advances to customers	**1,226,445**	**(53,432)**	**1,173,013**	**34,673**	**(581)**	**34,092**	**56,199**	**1,152,906**
– Amounts due from other group undertakings	**1,808**	**—**	**1,808**	**—**	**—**	**—**	**—**	**1,808**
Other assets	**1,367**	**—**	**1,367**	**—**	**—**	**—**	**—**	**1,367**
Total	**1,467,389**	**(53,432)**	**1,413,957**	**34,673**	**(581)**	**34,092**	**56,199**	**1,391,850**

	On-balance sheet assets			Off-balance sheet assets				
2020	Gross balances £000	Loss allowance £000	Net balance £000	Gross balances £000	Loss allowance £000	Net balance £000	Non-cash collateral £000	Net exposure £000
Cash and cash equivalents:								
– Central banks	35,024	—	35,024	—	—	—	—	35,024
– Other banks	22,189	—	22,189	—	—	—	—	22,189
– Debt securities	12,243	—	12,243	—	—	—	—	12,243
Financial assets at amortised cost:								
– Loans and advances to customers	238,066	(12,676)	225,390	5,534	(180)	5,354	10,401	220,343
– Amounts due from other group undertakings	3,080	—	3,080	—	—	—	—	3,080
Other assets	531	—	531	—	—	—	—	531
Total	311,133	(12,676)	298,457	5,534	(180)	5,354	10,401	293,410

Notes to the financial statements continued

34. Financial risk management continued

34.1 Credit risk continued

34.1.10 Rating distribution

The tables below set out the credit rating of financial assets, which are subject to IFRS 9 impairment assessment.

Zopa risk ratings presented in the below table are based on the following PD ranges: Tier 1 (<1.9%), Tier 2 (1.9 - 4.2%), Tier 3 (4.3 - 8.4%) and Tier 4 (> 8.4%).

	Zopa risk ratings				
2021	**Tier 1 £000**	**Tier 2 £000**	**Tier 3 £000**	**Tier 4 £000**	**Total £000**
On–balance sheet exposure					
Cash and cash equivalents:					
– Central banks					
Stage 1	191,148	—	—	—	191,148
– Other banks					
Stage 1	30,366	—	—	—	30,366
– Debt securities					
Stage 1	16,244	—	—	—	16,244
Financial assets at amortised cost:					
– Loans and advances to customers					
Stage 1	648,380	357,757	138,835	6,595	1,151,567
Stage 2	11,720	20,182	22,389	1,060	55,351
Stage 3	1,953	6,651	5,875	323	14,802
POCI	1,030	2,725	970	—	4,725
– Amounts due from other group undertakings					
Stage 1	1,808	—	—	—	1,808
Off–balance sheet exposure					
Stage 1	4,447	15,050	14,484	—	33,981
Stage 2	14	145	452	—	611
Stage 3	2	26	53	—	81
Total exposure	907,112	402,536	183,058	7,978	1,500,684

2021	Zopa risk ratings Tier 1 £000	Tier 2 £000	Tier 3 £000	Tier 4 £000	Total £000
On–balance sheet ECL					
Cash and cash equivalents:					
– Central banks					
Stage 1	—	—	—	—	—
– Other banks					
Stage 1	—	—	—	—	—
– Debt securities					
Stage 1	—	—	—	—	—
Financial assets at amortised cost:					
– Loans and advances to customers					
Stage 1	6,799	12,436	7,675	159	27,069
Stage 2	2,175	6,196	7,120	222	15,713
Stage 3	1,340	4,981	4,166	163	10,650
– Amounts due from other group undertakings					
Stage 1	—	—	—	—	—
Off–balance sheet ECL					
Stage 1	80	254	246	—	580
Stage 2	—	—	1	—	1
Stage 3	—	—	—	—	—
Total ECL	10,394	23,867	19,208	544	54,013

Notes to the financial statements continued

34. Financial risk management continued
34.1 Credit risk continued
34.1.10 Rating distribution continued

2020	Zopa risk ratings Tier 1 £000	 Tier 2 £000	 Tier 3 £000	 Tier 4 £000	Total £000
On–balance sheet exposure					
Cash and cash equivalents:					
– Central banks					
Stage 1	35,024	—	—	—	35,024
– Other banks					
Stage 1	22,189	—	—	—	22,189
– Debt securities					
Stage 1	12,243	—	—	—	12,243
Financial assets at amortised cost:					
– Loans and advances to customers					
Stage 1	128,875	73,981	26,283	349	229,488
Stage 2	758	3,700	3,329	37	7,824
Stage 3	103	343	295	13	754
– Amounts due from other group undertakings					
Stage 1	3,080	—	—	—	3,080
Off–balance sheet exposure					
Stage 1	807	2,397	2,097	—	5,300
Stage 2	34	112	87	—	233
Stage 3	—	—	—	—	—
Total exposure	203,113	80,533	32,091	399	316,136

2020	Zopa risk ratings Tier 1 £000	Tier 2 £000	Tier 3 £000	Tier 4 £000	Total £000
On–balance sheet ECL					
Cash and cash equivalents:					
– Central banks					
Stage 1	—	—	—	—	—
– Other banks					
Stage 1	—	—	—	—	—
– Debt securities					
Stage 1	—	—	—	—	—
Financial assets at amortised cost:					
– Loans and advances to customers					
Stage 1	2,927	4,585	2,120	7	9,639
Stage 2	303	1,217	1,021	3	2,544
Stage 3	62	248	176	7	493
– Amounts due from other group undertakings					
Stage 1	—	—	—	—	—
Off–balance sheet ECL					
Stage 1	2	53	124	—	179
Stage 2	—	—	1	—	1
Stage 3	—	—	—	—	—
Total ECL	3,294	6,103	3,442	17	12,856

34.1.11 Credit performance

The tables below show credit performance of loans and advances to customers, by segmenting the gross exposure by IFRS 9 stage and POCI loans. Gross write-offs and loss allowance are shown separately.

2021	**Stage 1 £000**	**Stage 2 £000**	**Stage 3 £000**	**POCI £000**	**Total £000**	**Gross write-offs £000**	**Loss allowance £000**
Loans and advances to customers:	**1,151,567**	**55,351**	**14,802**	**4,725**	**1,226,445**	**713**	**53,432**

2020	Stage 1 £000	Stage 2 £000	Stage 3 £000	POCI £000	Total £000	Gross write-offs £000	Loss allowance £000
Loans and advances to customers:	229,488	7,824	754	—	238,066	163	12,676

Notes to the financial statements continued

34. Financial risk management continued

34.1 Credit risk continued

34.1.12 Credit quality

The tables below show credit quality of On-balance sheet, and Off-balance sheet exposures, and the corresponding ECL allowance. The ECL on POCI loans is lower compared to non-POCI loans due to the ECL measurement requirements for POCI loans under IFRS 9.

2021	Stage 1 £000	Stage 2 £000	Stage 3 £000	POCI £000	Total £000
On–balance sheet exposure	**1,151,567**	**55,351**	**14,802**	**4,725**	**1,226,445**
Off–balance sheet exposure	**33,981**	**611**	**81**	**—**	**34,673**
On–balance sheet ECL	**27,069**	**15,713**	**10,650**	**—**	**53,432**
Off–balance sheet ECL	**580**	**1**	**—**	**—**	**581**

2020	Stage 1 £000	Stage 2 £000	Stage 3 £000	POCI £000	Total £000
On–balance sheet exposure	229,488	7,824	754	—	238,066
Off–balance sheet exposure	5,301	233	—	—	5,534
On–balance sheet ECL	9,639	2,544	493	—	12,676
Off–balance sheet ECL	179	1	—	—	180

34.1.13 Movement in total exposures and the corresponding ECL

The following table shows changes in total on-balance sheet, and off-balance sheet exposures, subject to IFRS 9 ECL assessment, and the corresponding ECL allowance.

	Stage 1		Stage 2		Stage 3		POCI		Total	
2021	**Exposure £000**	**ECL £000**	**Exposure £000**	**ECL £000**	**Exposure £000**	**ECL £000**	**Exposure £000**	**ECL £000**	**Exposure £000**	**ECL £000**
As at 1 January 2021	**229,488**	**9,639**	**7,824**	**2,544**	**754**	**493**	**—**	**—**	**238,066**	**12,676**
Transfers from Stage 1 to Stage 2	**(10,549)**	**(629)**	**10,549**	**629**	**—**	**—**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**2,821**	**637**	**(2,821)**	**(637)**	**—**	**—**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(5,272)**	**(359)**	**(1,289)**	**(701)**	**6,561**	**1,060**	**—**	**—**	**—**	**—**
Net ECL remeasurement on stage transfer	**—**	**(299)**	**—**	**1,435**	**—**	**2,711**	**—**	**—**	**—**	**3,847**
Change in economic risk parameters	**—**	**(1,211)**	**—**	**116**	**—**	**(13)**	**—**	**—**	**—**	**(1,108)**
Change in ECL methodology	**—**	**(1,746)**	**—**	**2,809**	**—**	**—**	**—**	**—**	**—**	**1,063**
New lending and purchased assets	**1,045,064**	**25,609**	**45,661**	**10,420**	**8,988**	**7,406**	**4,725**	**—**	**1,099,713**	**43,435**
Redemptions and repayments	**(109,253)**	**(4,512)**	**(4,009)**	**(501)**	**(642)**	**(175)**	**—**	**—**	**(113,904)**	**(5,188)**
Disposal of assets outside of credit risk appetite	**(732)**	**(60)**	**(564)**	**(401)**	**(146)**	**(119)**	**—**	**—**	**(1,442)**	**(580)**
Written off assets	**—**	**—**	**—**	**—**	**(713)**	**(713)**	**—**	**—**	**(713)**	**(713)**
As at 31 December 2021	**1,151,567**	**27,069**	**55,351**	**15,713**	**14,802**	**10,650**	**4,725**	**—**	**1,226,445**	**53,432**
Net movement in the period	**922,079**	**17,430**	**47,527**	**13,169**	**14,048**	**10,157**	**4,725**	**—**	**988,379**	**40,756**
ECL charge to the Income Statement	**—**	**17,430**	**—**	**13,169**	**—**	**10,157**	**—**	**—**	**—**	**40,756**
Write off charge	**—**	**—**	**—**	**—**	**—**	**713**	**—**	**—**	**—**	**713**
Positive provision on POCI loans	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(53)**	**—**	**(53)**
Total loans and advances ECL charge to the Income Statement	**—**	**17,430**	**—**	**13,169**	**—**	**10,870**	**—**	**(53)**	**—**	**41,416**

Notes to the financial statements continued

34. Financial risk management continued
34.1 Credit risk continued
34.1.13 Movement in total exposures and the corresponding ECL

2020 (restated)	Stage 1 Exposure £000	Stage 1 ECL £000	Stage 2 Exposure £000	Stage 2 ECL £000	Stage 3 Exposure £000	Stage 3 ECL £000	POCI Exposure £000	POCI ECL £000	Total Exposure £000	Total ECL £000
As at 1 January 2020	15,180	98	1,330	65	70	45	—	—	16,580	208
Transfers from Stage 1 to Stage 2	(2,239)	(17)	2,239	17	—	—	—	—	—	—
Transfers from Stage 2 to Stage 1	410	17	(410)	(17)	—	—	—	—	—	—
Transfers to Stage 3	(226)	(2)	(254)	(20)	480	22	—	—	—	—
Net ECL remeasurement on stage transfer	—	(13)	—	106	—	134	—	—	—	227
Change in economic risk parameters	—	106	—	261	—	84	—	—	—	451
Change in ECL methodology	—	—	—	—	—	—	—	—	—	—
New lending and purchased assets	221,720	9,481	5,861	2,148	389	381	—	—	227,970	12,010
Redemptions and repayments	(5,357)	(31)	(942)	(16)	(22)	(10)	—	—	(6,321)	(57)
Written off assets	—	—	—	—	(163)	(163)	—	—	(163)	(163)
As at 31 December 2020	229,488	9,639	7,824	2,544	754	493	—	—	238,066	12,676
Net movement in the period	214,308	9,541	6,494	2,479	684	448	—	—	221,486	12,468
ECL charge to the Income Statement	—	9,541	—	2,479	—	448	—	—	—	12,468
Write off charge	—	—	—	—	—	163	—	—	—	163
Total ECL charge to the Income Statement	—	9,541	—	2,479	—	611	—	—	—	12,631

The above waterfall methodology has been refined in line with peers and DECL recommendations. The 2020 disclosure has been retrospectively adjusted in line with the new methodology.

34.1.14 Collateral analysis

We hold collateral against secured auto loans in the form of motor vehicles. The tables below set out our exposure and ECL allowance against a range of loan-to-value (LTV) segments. The value of collateral used in determining the LTV ratios has been calculated based upon the collateral valuation performed at origination.

	Stage 1		Stage 2		Stage 3		POCI		Total	
2021	**Exposure £000**	**ECL £000**	**Exposure £000**	**ECL £000**	**Exposure £000**	**ECL £000**	**Exposure £000**	**ECL £000**	**Exposure £000**	**ECL £000**
Less than 50%	**2,573**	**16**	**34**	**2**	**8**	**4**	**—**	**—**	**2,615**	**22**
50% to 70%	**8,659**	**60**	**222**	**31**	**19**	**10**	**8**	**—**	**8,908**	**101**
70% to 80%	**10,740**	**87**	**259**	**38**	**12**	**6**	**2**	**—**	**11,013**	**131**
80% to 90%	**20,299**	**183**	**415**	**46**	**214**	**109**	**62**	**—**	**20,990**	**338**
90% to 100%	**35,886**	**397**	**1,618**	**260**	**575**	**297**	**151**	**—**	**38,230**	**954**
Greater than 100%	**34,813**	**442**	**1,734**	**286**	**510**	**262**	**197**	**—**	**37,254**	**990**
Total	**112,970**	**1,185**	**4,282**	**663**	**1,338**	**688**	**420**	**—**	**119,010**	**2,536**

	Stage 1		Stage 2		Stage 3		POCI		Total	
2020	Exposure £000	ECL £000	Exposure £000	ECL £000	Exposure £000	ECL £000	Exposure £000	ECL £000	Exposure £000	ECL £000
Less than 50%	332	4	41	1	—	—	—	—	373	5
50% to 70%	1,314	17	173	11	36	19	—	—	1,523	47
70% to 80%	1,736	24	248	36	—	—	—	—	1,984	60
80% to 90%	3,399	56	351	51	87	47	—	—	3,837	154
90% to 100%	6,513	125	1,077	248	250	132	—	—	7,840	505
Greater than 100%	5,700	96	552	104	89	48	—	—	6,341	248
Total	18,994	322	2,442	451	462	246	—	—	21,898	1,019

34.1.15 Credit risk for other financial assets

Credit risk exists where we have acquired securities or placed cash deposits with other financial institutions as part of our treasury portfolio of assets. We 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 our liquid asset buffer. At 31 December 2021, all treasury assets were in Stage 1. The table below sets out information about the credit quality of treasury financial assets.

	AAA		AA–		A+ to A–		Total	
	2021 £000	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000
Cash and cash equivalents:								
– Central banks	**—**	—	**191,148**	35,024	**—**	—	**191,148**	35,024
– Other banks	**—**	—	**—**	—	**30,366**	22,189	**30,366**	22,189
– Debt securities	**16,244**	12,243	**—**	—	**—**	—	**16,244**	12,243
Total	**16,244**	12,243	**191,148**	35,024	**30,366**	22,189	**237,758**	69,456

Notes to the financial statements continued

34. Financial risk management continued

34.2 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.

34.2.1 Repricing analysis

The following table sets out the Company's interest rate repricing gaps over a period of five years from the balance sheet date. A positive repricing gap exists when more assets than liabilities reprice during a set period. The opposite is true for a negative repricing gap.

2021	Non-interest bearing £000	Up to 3 months £000	3–6 months £000	6–12 months £000	1–5 years £000	Over 5 years £000	Total £000
Cash and cash equivalents:							
– Central banks	—	**191,148**	—	—	—	—	**191,148**
– Other banks	—	**30,366**	—	—	—	—	**30,366**
– Debt securities	—	**16,244**	—	—	—	—	**16,244**
Financial assets at fair value through profit or loss:							
– Derivative financial instruments	**11**	—	—	—	—	—	**11**
Financial assets at amortised cost:							
– Loans and advances to customers	—	**44,969**	**5,591**	**32,770**	**1,085,889**	**3,794**	**1,173,013**
– Amounts due from other group undertakings	**1,808**	—	—	—	—	—	**1,808**
Other assets[1]	**1,367**	—	—	—	—	—	**1,367**
Total assets	**3,186**	**282,727**	**5,591**	**32,770**	**1,085,889**	**3,794**	**1,413,957**
Financial liabilities at amortised cost:							
– Deposits by customers	—	**62,324**	**57,466**	**528,452**	**319,644**	**114**	**968,000**
– Amounts due to banks	—	**175,193**	—	—	—	—	**175,193**
– Amounts due to other group undertakings	—	—	—	—	**17,000**	—	**17,000**
Other liabilities[2]	**3,891**	—	—	—	—	—	**3,891**
Total liabilities	**3,891**	**237,517**	**57,466**	**528,452**	**336,644**	**114**	**1,164,084**
Interest rate sensitivity gap	**(705)**	**45,210**	**(51,875)**	**(495,682)**	**749,245**	**3,680**	**249,873**
Cumulative gap	**(705)**	**44,505**	**(7,370)**	**(503,052)**	**246,193**	**249,873**	**249,873**

2020	Non-interest bearing £000	Up to 3 months £000	3–6 months £000	6–12 months £000	1–5 years £000	Over 5 years £000	Total £000
Cash and cash equivalents:							
– Central banks	—	35,024	—	—	—	—	35,024
– Other banks	—	22,189	—	—	—	—	22,189
– Debt securities	—	12,243	—	—	—	—	12,243
Financial assets at amortised cost:							
– Derivative financial instruments	—	—	—	—	—	—	—
– Loans and advances to customers	—	3,734	755	6,831	213,330	740	225,390
– Amounts due from other group undertakings	3,080	—	—	—	—	—	3,080
Other assets[1]	531	—	—	—	—	—	531
Total assets	3,611	73,190	755	6,831	213,330	740	298,457
Financial liabilities at fair value through profit or loss:							
– Derivative financial instruments	97	—	—	—	—	—	97
Financial liabilities at amortised cost:							
– Deposits by customers	—	—	4	119,886	57,898	35	177,823
– Amounts due to banks	—	11	—	—	—	—	11
– Amounts due to other group undertakings	—	3,128	—	—	—	—	3,128
Other liabilities[2]	642	—	—	—	—	—	642
Total liabilities	739	3,139	4	119,886	57,898	35	181,701
Interest rate sensitivity gap	2,872	70,051	751	(113,055)	155,432	705	116,756
Cumulative gap	2,872	72,923	73,674	(39,381)	116,051	116,756	116,756

1. Other assets includes unallocated customer transactions in transit.
2. Other liabilities includes customer transactions in transit and supplier balances.

Notes to the financial statements continued

34. Financial risk management continued

34.2 Market risk

34.2.2 Sensitivity to interest yield curve

The following sensitivity analysis shows the impact of a two-percentage point shift in the interest yield curve on the expected net interest income over a one year forecasting horizon for financial instruments held at the end of the year.

	2021 £000	2020 £000
2% shift up of the yield curve	**723**	(4,588)
2% shift down of the yield curve	**(989)**	5,017

34.3 Liquidity risk

Liquidity risk is the risk that the Company fails to meet its short-term obligations as they fall due. The following disclosures show the liquidity risk present at the balance sheet date.

34.3.1 Liquid assets

The following table sets out liquid assets available to the Company at the balance sheet date. Liquid assets are those assets that can be easily converted into cash on a short notice.

	2021 £000	2020 £000
Cash at central bank	**191,148**	35,024
Unencumbered cash and bank balances	**27,686**	22,101
Government money market fund	**16,244**	12,243
Total liquid assets	**235,078**	69,368
Add: encumbered cash and bank balances	**2,680**	88
Total cash and cash equivalents	**237,758**	69,456

34.3.2 Contractual maturity

The following tables split the carrying amount of the Company's financial assets and liabilities based on the final contractual maturity date. This information is not used by the Company in managing the liquidity risk, because in practice these assets and liabilities may mature earlier or later than implied by their contractual tenor, for example if repaid earlier.

2021	Carrying value £000	Repayable on demand £000	Up to 3 months £000	3–6 months £000	6–12 months £000	1–5 years £000	Over 5 years £000	No contractual maturity £000
Cash and cash equivalents:								
– Central banks	191,148	191,148	—	—	—	—	—	—
– Other banks	30,366	30,366	—	—	—	—	—	—
– Debt securities	16,244	16,244	—	—	—	—	—	—
Financial assets at fair value through profit or loss:								
– Derivative financial instruments	11	—	8	3	—	—	—	—
Financial assets at amortised cost:								
– Loans and advances to customers	1,173,013	245	1,657	5,591	32,770	1,085,889	3,794	43,067
– Amounts due from other group undertakings	1,808	1,421	387	—	—	—	—	—
Other assets[1]	1,367	—	1,367	—	—	—	—	—
Total assets	**1,413,957**	**239,424**	**3,419**	**5,594**	**32,770**	**1,085,889**	**3,794**	**43,067**
Financial liabilities at amortised cost:								
– Deposits by customers	968,000	12,896	49,428	57,466	528,452	319,644	114	—
– Amounts due to banks	175,193	101	46	25,046	—	150,000	—	—
– Amounts due to other group undertakings	17,000	—	—	—	—	17,000	—	—
Other liabilities[2]	3,891	—	3,891	—	—	—	—	—
Total liabilities	**1,164,084**	**12,997**	**53,365**	**82,512**	**528,452**	**486,644**	**114**	**—**
Liquidity gap	**249,873**	**226,427**	**(49,946)**	**(76,918)**	**(495,682)**	**599,245**	**3,680**	**43,067**
Cumulative liquidity gap	**249,873**	**226,427**	**176,481**	**99,563**	**(396,119)**	**203,126**	**206,806**	**249,873**

Notes to the financial statements continued

34. Financial risk management continued

34.3 Liquidity risk continued

34.3.2 Contractual maturity continued

2020	Carrying value £000	Repayable on demand £000	Up to 3 months £000	3–6 months £000	6–12 months £000	1–5 years £000	Over 5 years £000	No contractual maturity £000
Cash and cash equivalents:								
– Central banks	35,024	35,024	—	—	—	—	—	—
– Other banks	22,189	22,189	—	—	—	—	—	—
– Debt securities	12,243	12,243	—	—	—	—	—	—
Financial assets at amortised cost:								
– Loans and advances to customers	225,390	1	373	755	6,831	213,330	740	3,360
– Amounts due from other group undertakings	3,080	1,462	—	—	1,618	—	—	—
Other assets[1]	531	—	531	—	—	—	—	—
Total assets	298,457	70,919	904	755	8,449	213,330	740	3,360
Financial liabilities at amortised cost:								
– Derivative financial instruments	97	—	36	49	12	—	—	—
Financial liabilities at amortised cost:								
– Deposits by customers	177,823	—	—	4	119,886	57,898	35	—
– Amounts due to banks	11	11	—	—	—	—	—	—
– Amounts due to other group undertakings	3,128	—	—	—	—	3,128	—	—
Other liabilities[2]	642	—	642	—	—	—	—	—
Total liabilities	181,701	11	678	53	119,898	61,026	35	—
Liquidity gap	116,756	70,908	226	702	(111,449)	152,304	705	3,360
Cumulative liquidity gap	116,756	70,908	71,134	71,836	(39,613)	112,691	113,396	116,756

1. Other assets includes unallocated customer transactions in transit.
2. Other liabilities includes unallocated customer transactions in transit and supplier balances.

34.4 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:

	2021 £000	2020 £000
Common Equity Tier (CET 1) 1		
Called-up share capital	**349,319**	192,319
Other reserves	**6,180**	4,324
Retained losses	**(103,244)**	(69,021)
Less: intangible assets	**(9,352)**	(12,183)
Total CET 1 capital	**242,903**	115,439
Total capital resources	**242,903**	115,439

The Company is subject to external capital requirements which have been met throughout the year.

35. Post balance sheet events

On 11 January 2022, the Company acquired a loan portfolio consisting of both unsecured personal loans and hire purchase auto loans. Identically to the loan acquisition in December 2021, these loans were purchased from Retail investors whose loans were previously serviced by Zopa Limited, utilising a contractual clause of the loans which enabled the Group to purchase loans from investors at an amount equal to their principal value. The purchase price of these loans on acquisition was £71.2m.

On 28 January 2022, a further £2.0m shares were issued for cash to Zopa Group Limited, who are 100% owners of the Company.

Additional information

Alternative Performance Measures and Key Ratios (unaudited)

In the reporting of financial information, we use certain measures that are not required under IFRS, the Generally Accepted Accounting Principles (GAAP) under which we report. These measures are consistent with those used by management to assess underlying performance. In addition, a number of non-IFRS metrics are calculated which are commonly used within the banking industry. These alternative performance measures have been defined below:

Total revenue

Total net interest income and fee and commission income.

	Notes	**2021 £m**	2020 £m
Net interest income	2	**55.7**	6.6
Fee and commission income	3	**2.4**	0.2
Total revenue		**58.1**	6.8
Total revenue growth (year-on-year change between 2021 and 2020)		**51.3**	

Net interest margin

Net interest income on customer balances as a percentage of average gross loans and advances to customers. The average is calculated using monthly average balances.

	Note	**2021 £m**	2020 £m
Net interest income on customer balances	2	**55.9**	6.8
Average gross loans and advances to customers		**525.1**	66.2
Net interest margin		**10.6%**	10.3%

Cost to income ratio

Operating expenses as reported in the Statement of Comprehensive Income divided by net interest income plus net fee and commission income as reported in the Statement of Comprehensive Income.

	Notes	**2021 £m**	2020 £m
Operating expenses	6	**57.6**	38.4
Net interest and fee and commission income	2 & 3	**54.8**	4.7
Cost to income ratio		**105.1%**	817.7%

Cost of risk

Net expected credit losses charge as reported in the Statement of Comprehensive Income (which includes write-offs and recoveries, net of collection costs but excluding debt sales) divided by average gross loans and advances to customers. The average is calculated using monthly average balances.

	Notes	2021 £m	2020 £m
Expected credit loss allowance and similar charges	10	**41.8**	12.8
Average gross loans and advances to customers		**525.1**	66.2
Cost of risk		**7.96%**	19.34%

Loan to deposit ratio

Net loans and advances to customers expressed as a percentage of total deposits from customers.

	Notes	2021 £m	2020 £m
Loans and advances to customers	16	**1,173.0**	225.4
Deposits from customers	23	**968.0**	177.8
Loan to deposit ratio		**1.2**	1.3

Cost of deposits

Interest expense on deposits from customers, as a percentage of average deposits from customers. The average is calculated using monthly average balances.

	Notes	2021 £m	2020 £m
Interest on deposits from customers	2	**5.2**	0.4
Average deposits from customers		**468.3**	35.5
Cost of deposits		**1.1%**	1.2%

Annualised revenue run rate

Annualised revenue run rate shows what our annual total revenue (as defined above) would be at December levels.

	2021 £m	2020 £m
Total revenue in the month of December	**9.2**	2.4
Annualised revenue run rate (December x 12 months)	**110.4**	28.8

UPLs annualised run rate (disbursals)

UPLs annualised run rate (disbursals) shows what our annual disbursals would be if we originated new loans at November levels.

	2021 £m	2020 £m
UPL disbursals in the month of November	**121**	50
Annualised run rate (disbursals) (November x 12 months)	**1,457**	595

Glossary of terms (unaudited)

Term	Definition
Annualised revenue run rate	Annualised revenue run rate shows what our annual total revenue (as defined above) would be at December levels.
Average deposit per customer	Total deposits from customers at the balance sheet date, divided by the total number of depositors.
Common equity tier 1 ratio	Common Equity Tier 1 Capital divided by Risk-Weighted Assets.
Cost of funds	Interest expense on deposits from customers, as a percentage of average deposits from customers. The average is calculated using monthly average balances.
Cost of risk	Expected credit losses charge divided by average gross loans and advances to customers. The average is calculated using monthly average balances.
Cost to income ratio	Operating expenses as reported in the Statement of Comprehensive Income divided by net interest income plus net fee and commission income as reported in the Statement of Comprehensive Income.
Coverage ratio	Total expected credit losses allowance divided by Total Gross Loans & Advances to Customers.
Customer satisfaction mobile app rating	Average customer rating for our Zopa mobile application across the Apple's App Store and Google's Play Store.
Employee engagement score	We measure our engagement score as a weighted average of responses to three key questions: (a) I would recommend Zopa as a great place to work; (b) I rarely think about looking for job at another company; and (c) Zopa motivates me to go beyond what I would in a similar role elsewhere.
Expected credit losses allowance	Expected credit loss allowance deducted from Loans & Advances to Customers.
Expected credit losses charge	Expected credit losses and other credit impairment charges (which includes write-offs and recoveries, net of collection costs but excluding debt sales) as reported in the Statement of Comprehensive Income.
Gross new lending (UPL and Auto Loans)	Total new lending of unsecured personal loans and auto loans during the financial year excluding loans acquired in December 2021.
HQLA/deposit ratio	The amount of High Quality Liquid Assets (HQLA) divided by the total deposits. Liquid assets include Zopa's reserves at Bank of England, holdings of government debt securities and investments in money market funds.
Leverage ratio	The amount of institution's capital divided by total exposure, in accordance with the PRA's CRR rules (Leverage Instrument 2021). The Leverage ratio is expressed as a percentage.
Liquidity coverage ratio	The amount of unencumbered High Quality Liquid Assets (HQLA), divided by total net stressed liquidity outflows flows over a period of 30 days.
Loan to deposit ratio	Net loans and advances to customers expressed as a percentage of total deposits from customers.
Loss after tax	Loss after tax as reported in the Statement of Comprehensive Income.
Loss before tax	Loss before tax as reported in the Statement of Comprehensive Income.
Net fee and commission income	Net fee and commission income as reported in the Statement of Comprehensive Income.

Term	Definition
Net interest income	Net interest income as reported in the Statement of Comprehensive Income.
Net Interest Margin (NIM)	Net interest income on customer balances as a percentage of average gross loans and advances to customers. The average is calculated using monthly average balances.
Net stable funding ratio	The amount of available stable funding divided by the amount of required stable funding, in accordance with the PRA's CRR rules. The NSFR is expressed as a percentage.
Number of credit card customers	Total number of credit card customers at the year end with an open account.
Number of full-time employees	Total number of full-time employees on the company's payroll at the year end.
Operating expenses	Operating expenses as reported in the Statement of Comprehensive Income.
Overall net promoter score	This is a weighted average Net Promoter Score taken across all our products, weighted by number of customers per product. This customer loyalty and satisfaction measurement is taken from asking customers how likely they are to recommend our product or service to others. Reported NPS are those as at the year end.
Percentage recommending Zopa as a great place to work	The proportion of our employees who would recommend Zopa as a great place to work.
Proportion of customers using Borrowing Power	The proportion of our customers across all products who use our Borrowing Power tool.
Risk-weighted assets	On- and off- balance sheet assets and exposures weighted according to the PRA's Capital Requirement Regulation (CRR) and Capital Requirements Directive (CRD) rules.
Total deposits	Total deposits from customers as reported in the Statement of Financial Position.
Total equity	Total shareholders' equity as reported in the Statement of Financial Position.
Total loans & advances to customers	Total loans and advances to customers as reported in the Statement of Financial Position.
Total number of customers	Total number of customers at the year end with an unsecured personal loan, auto loan, credit card or savings product.
Total regulatory capital	The amount and quality of capital Zopa Bank maintains to comply with the minimum capital requirements under the CRR. We also disclose a number of capital and liquidity metrics which are required by the PRA and FCA. The basis of calculation of those metrics is defined within the relevant legislation.
Total revenue	Total net interest income and fee and commission income.
Total revenue growth	Year on year change in total revenue.
UPLs annualised run rate (disbursals)	UPLs annualised run rate (disbursals) shows what our annual disbursals would be if we originated new loans at November levels.
Value of deposits taken in the year	Total value of new deposits taken during the financial year – excludes resavers.
Volume of new credit cards issued in the year	Total number of new credit cards opened during the financial year.

Forward-looking statements

The information in this document may include forward-looking statements, which are based on assumptions, expectations, valuations, targets, estimates, forecasts and projections about future events. These can be identified by the use of words such as ‘expects’, ‘aims’, ‘targets’, ‘seeks’, ‘anticipates’, ‘plans’, ‘intends’, ‘prospects’, ‘outlooks’, ‘projects’, ‘forecasts’, ‘believes’, ‘estimates’, ‘potential’, ‘possible’, and similar words or phrases. These forward-looking statements speak only as at the date on which they are made. Forward-looking statements are subject to risks, uncertainties and assumptions about the company its securities, investments and the environment in which it operates , including, among other things, the development of its business and strategy, any acquisitions, combinations, disposals or other corporate activity undertaken by the company, trends in its operating industry, changes to customer behaviours, macroeconomic and/or geo-political factors including but not limited to the economic repercussions of the UK’s exit from the European Union and the Russia-Ukraine war, the direct and indirect impacts of the COVID-19 pandemic, changes to its Board and/or employee composition, exposures to terrorist activity, IT system failures and its impact on the company’s business and operations, cybercrime, fraud and pension scheme liabilities, changes to law and/or the policies and practices of any governmental or regulatory authority, market related risks including changes in inflation, deflation interest rates and foreign exchange rates, changes in the liquidity, capital, funding and/or asset position and/or credit ratings of the company, future capital expenditures of the company the repercussions of the UK’s exit from the EU (including any change to the UK’s currency), Eurozone instability, and any referendum on Scottish independence.

In light of these risks, uncertainties and assumptions, the events in the forward-looking statements may not occur. Forward-looking statements involve inherent risks and uncertainties. Other events not taken into account may occur and may significantly affect the analysis of the forward-looking statements. No member of the Company or their respective directors, officers, employees, agents, advisers or affiliates gives any assurance that any such projections or estimates will be realised or that actual returns or other results will not be materially lower than those set out in this document. All forward-looking statements should be viewed as hypothetical. No representation or warranty is made that any forward-looking statement will come to pass. No member of the company or their respective directors, officers, employees, agents, advisers or affiliates undertakes any obligation to update or revise any such forward-looking statement following the publication of this document nor accepts any responsibility, liability or duty of care whatsoever for (whether in contract, tort or otherwise) or makes any representation or warranty, express or implied, as to the truth, fullness, fairness, accuracy, sufficiency or completeness of, the information in this document. The information, statements and opinions contained in this document do not constitute or form part of any advice, recommendation or guarantee about the future performance of the company and should not be relied upon.

Company information

Company (and Parent) registered office and head office
First Floor Cottons Centre
47–49 Tooley Street
London
England
SE1 2QG

Company registered number
10627575

Principal Bankers
National Westminster Bank
1 Princes Street
London
EC2R 8BP

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

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London, SE1 2QG.