Zopa Group Limited

Pillar 3 Disclosures
Year ended 31 December 2021

Contents

1 Introduction

This document presents Pillar 3 disclosures on capital and risk management for Zopa Group Limited ('the Group') and its subsidiaries as at 31 December 2021. The Group is authorised and regulated by the Prudential Regulation Authority ('PRA'). The document has two principal purposes:

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

Capital Requirements Directive (CRD V), as published in the PRA's policy statement PS29/20, introduced a new requirement relating to certain holding companies of PRA regulated entities established in the UK (referred to as parent financial holding companies or parent mixed financial holding companies). Companies in scope of the new requirement would become subject to licensing obligations and ongoing supervision by the PRA. As a result, Zopa Group Limited became authorised by the PRA in December 2021. The Pillar 3 disclosures are therefore being prepared on a consolidated basis.

This document should be read in conjunction with the Group's 2021 Annual Report and Accounts, which are available on the Group's website at: www.zopa.com/about.

The main subsidiaries of the Group as at 31 December 2021 were Zopa Bank Ltd ('the Bank') and Zopa Limited (peer to peer lender). In accordance with Article 13 of the Capital Requirements Regulation ('CRR'), Appendix 1 to this document also provides reduced disclosures for the Bank for the same reporting period. The Bank is the principal regulated subsidiary (authorised by the PRA and regulated by the PRA and the FCA) of the Group.

In 2021, the Group decided to close its peer-to-peer operation in Zopa Limited for both investors and borrowers and invoked a wind down of the business. Going forward, all loans will be funded by the Bank. In February 2022, the Group completed the sale of Zopa Limited to Plata Holdings UK Limited (a subsidiary of IAG Silverstripe, a shareholder).

References to the Board and Board Committees in this document relate to the Group unless specifically stated otherwise.

2 Summary analysis

Key ratios

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

Table 1: Key ratios

	2021	2020
Common Equity Tier 1 ("CET1") ratio	25%	29%
Tier 1 capital ratio	25%	29%
Total capital ratio	25%	29%
Risk weighted assets (£ million)	1,050	407
Leverage ratio	21%	38%

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

Liquidity ratios such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) are managed at Bank level and therefore are not shown at Group level. Please refer to Appendix 1.

3 Disclosure policy

The following sets out a summary of the Group's and Bank's Pillar 3 disclosure policy, including basis of preparation, frequency, media and location, verification and risk profile disclosure. This policy is reviewed by both Group and Bank Board Audit Committees ('BACs') and approved by the Group and Bank Boards every two years to ensure that it remains appropriate in the light of new regulations and emerging best practice. The disclosure policy was approved by the Group and Bank Boards in May 2022.

Basis of preparation

The Bank of England and PRA issued a joint Statement of Policy in December 2020, which sets out their agreed approach following the UK's withdrawal from the European Union (EU) and the end of the transition period on 31 December 2020. The document states that the Bank of England and PRA expect firms to continue to make every effort to comply with existing EU guidelines and recommendations that are applicable as at the end of the transition period, to the extent that these remain relevant. The document also confirms that the Bank of England and PRA do not expect firms to comply with changes to existing guidelines and recommendations or new guidelines and recommendations issued by EU authorities after the end of the transition period.

In light of the above, the 2021 Pillar 3 Disclosures are prepared in accordance with the requirements of the CRD V and Part 8 of the Capital Requirements Regulation (CRR) and are based on the relevant EU guidelines and recommendations that were approved by the EU Commission at the end of the transition period.

There are no differences between the basis of consolidation for accounting and prudential purposes for the Group. All subsidiary companies included in the Pillar 3 disclosures are consolidated in full. Details of the basis of consolidation for accounting purposes are provided in the Group's 2021 Annual Report and Accounts in Note 1.2.

Frequency, media and location

The Group's and Bank's policy is to publish the Pillar 3 disclosures on an annual basis. The information is published in conjunction with the Group's and Bank's Annual Report & Accounts (ARA) being filed at Companies House. The Pillar 3 disclosures are published by making them available on Zopa's website.

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

Verification

The Pillar 3 disclosures were reviewed by the BACs and recommended to the Boards for approval. In addition, the remuneration disclosures as detailed in Section 14 of this document were reviewed by the Bank's Nomination & Remuneration Committee ('NRC'). The Pillar 3 disclosures were approved by both Boards. The disclosures are not subject to external audit, though an independent review by internal audit was performed over its completeness and adequacy against relevant regulatory requirements. However, some of the information within the disclosures also appears in the Group's 2021 Annual Report and Accounts, which are subject to external audit.

Board responsibility for risk management and disclosures

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

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

4 Regulatory capital framework

As described in Section 3, the Group is subject to the European Union's CRD and CRR, which provide consistent capital adequacy standards for financial services companies and an associated supervisory framework across the European Union and are enforced in the UK by the PRA. The framework consists of three "pillars", as summarised below:

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

Capital requirements

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

<table>
<tr><th>Requirement</th><th>Calculation method</th><th>Description</th><th>Requirement</th><th>Further information</th></tr>
<tr><td colspan="5">Pillar 1</td></tr>
<tr><td>Credit risk</td><td>Standardised Approach</td><td>The Group applies the standardised method to the entire loan book and other assets. The standardised approach applies a standardised set of risk weightings to credit risk exposures.</td><td rowspan="3">Pillar 1 requirements (as per Article 92 of the CRR):
• 4.5% of RWAs met by CET1 capital
• 6.0% of RWAs met by Tier 1 capital
• 8.0% of RWAs met by total capital</td><td>Section 7</td></tr>
<tr><td>Market risk</td><td>Standardised Approach</td><td>The Group applies the standardised method to relevant assets. The Group does not have a trading book and therefore no exposure to market risk.</td><td>Section 9</td></tr>
<tr><td>Operational risk</td><td>Basic Indicator Approach ("BIA")</td><td>The Group applies the Basic Indicator Approach for operational risk capital requirements in accordance with CRR Article 315.</td><td>Section 10</td></tr>
<tr><td colspan="5">Pillar 2</td></tr>
<tr><td>Pillar 2a</td><td>Calculated by the PRA, based on the ICAAP submission</td><td>Percentage of RWAs.</td><td>Set by the PRA</td><td>n/a</td></tr>
<tr><td>Pillar 2b (also known as the 'PRA Buffer')</td><td>Calculated by PRA, based on the ICAAP submission</td><td>Based on outputs of internal stress testing, PRA buffer assessment and PRA buffer requirement.</td><td>Set by the PRA and not disclosed</td><td>n/a</td></tr>
<tr><td colspan="5">Combined Buffer and PRA Buffer</td></tr>
</table>

Requirement	Calculation method	Description	Requirement	Further information
Capital conservation buffer ("CCoB")	Expressed as a percentage of RWAs	The capital conservation buffer is part of the CRD IV combined buffer. It is held in combination with the counter-cyclical buffer and the PRA buffer to ensure the Group can withstand an adverse market stress. All to be met by CET1 capital.	As at 31 December 20201 it was set by the PRA at 2.5%	n/a
Counter-cyclical Buffer ("CCyB")	Expressed as a percentage of total Pillar 1 RWAs		As at 31 December 2021, it was set by the Financial Policy Committee ("FPC") at 0%	n/a
PRA buffer	Expressed as a percentage of total Pillar 1 RWAs	PRA buffer, in combination with the CRD IV combined buffer is held to ensure the Group can withstand an adverse market stress. The combination of the PRA buffer and the CRD IV combined buffer replaced the Capital Planning Buffer ("CPB") effective 1 January 2016. At 31 December 2019 the PRA buffer needs to be fully met with CET1 capital.	PRA buffer is set by the PRA	n/a

Capital resources

The following table provides a summary of the main components of the Group's capital resources as at 31 December 2021:

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

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

Regulatory developments affecting the Group

The Bank of England reduced the Counter Cyclical Buffer ('CCyB') from 1% of RWA to zero during 2020, which remained at zero throughout 2021.

Brexit and CRR II amendments

As the UK has left the European Union and the Financial Services Bill received Royal Assent in April 2021, thereby writing the Financial Services Act 2021 into law, this has given basis for UK regulators to adopt and implement regulations. In October 2021 the PRA provided the final PRA rulebook instruments, statement of policy, supervisory statements and reporting templates and instructions. These were published in the PS22/21 Implementation of Basel standards: Final rules. This policy statement contains the PRA final rules, replacing the elements of the Capital Requirements Regulation which were revoked by HM Treasury in the Financial Services Act 2021. These rules will apply from 1 January 2022 and therefore do not apply to the 31 December 2021 Pillar 3 Disclosures. PS22/21 does materially amend the requirements for Pillar 3 disclosures, with more defined tables for disclosure which will be incorporated into the Group's 2022 Pillar 3 disclosures.

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

Other regulation

In October 2021 the PRA published PS21/21 The UK leverage ratio framework confirming the scope of application of the leverage ratio requirement. This confirmed a formal leverage requirement would apply only for firms meeting or exceeding the existing threshold of £50bn retail deposits, with an additional threshold of £10bn non-UK assets to apply from 1 January 2023. This does not apply to the Group.

Future developments affecting the Group

Countercyclical Buffer

In December 2021, the Financial Policy Committee announced an increase in the UK countercyclical capital buffer from 0% to 1% with effect from December 2022. It also announced that, absent from any changes in the economic environment, it would expect to increase the UK countercyclical capital buffer from 1% to 2% with effect from June 2023 to reflect a more standard environment.

Outsourcing and third party risk management

In March 2021, the PRA published SS2/21 'Outsourcing and third party risk management', which sets out the PRA's expectations on how regulated firms should comply with regulatory requirements and expectations relating to outsourcing and third-party management. The Group ensured compliance in 2021.

Operational Resilience

Also in March 2021, the PRA and FCA published their aligned policy statements ('PS6/21 Operational resilience: Impact tolerances for important business services' and PS21/3 'Building operational resilience', respectively) and associated supervisory rules related to operational resilience. These requirements set out expectations for firms to identify and enhance their operational resilience in order to mitigate impacts in the face of severe but plausible operational disruption. The Group has addressed the requirements to comply and has developed a roadmap to deliver improved operational resilience by 31 March 2025 to meet regulatory expectations.

Operational continuity in resolution

In May 2021, the PRA published SS4/21 'Ensuring operational continuity in resolution', which aligns with other regulatory publications in 2021 to ensure the identification and effective management of operational arrangements to facilitate recovery and resolution. The Group has devised action plans to deliver on the requirements ahead of the 1 January 2023 deadline.

5 Risk management

Approach to risk management

Effective risk management plays a key role in the execution of the Group’s strategy. The Board and senior management seek to ensure that the risks the Group takes are clearly identified, managed, monitored and reported and that the Group’s resources are capable of withstanding both expected and unexpected levels of risk performance. During the year the Group Board considered risk matters arising from the Bank Board and the Zopa Limited Board.

The Bank BRC has responsibility for, among other things, advising the Bank Board on overall risk appetite and strategy. BRC operates at Bank level[1] and 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.

Zopa Limited Board had responsibility for assessing and managing all risks pertinent to peer to peer lending within the Group.

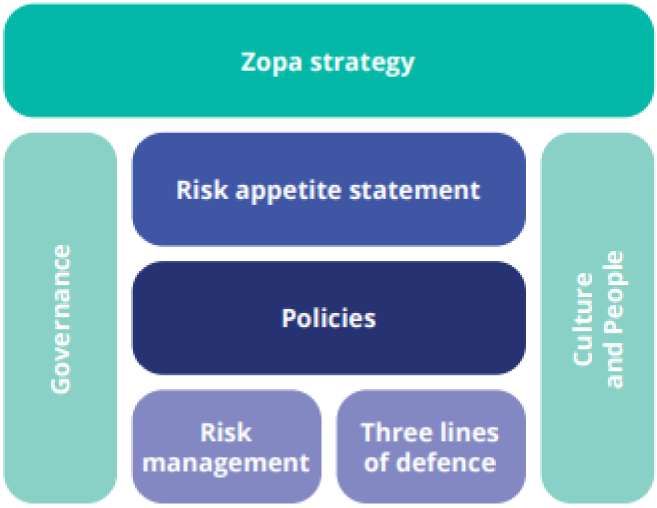
The Group Board confirms, through its regular review of the risk profile of the Group, the adequacy and effectiveness of the Group’s risk management and internal control arrangements for the financial year. On the basis of its own review, the Board considers that it has in place adequate systems and controls with regard to the Group's prof(because all aile and strategy.

This document should be read in conjunction with the Risk Management Section within the Group’s 2021 Annual Report and Accounts which provides further insight into risk management strategies, processes, controls and attestations.

Risk management framework

The risk management framework (RMF) sets out how the Group manages its risk and control environment. The RMF defines types of risk, identifies sources of risk and describes how those risks are effectively identified, measured, monitored, reported and mitigated. The Bank is the only principal operating entity within the Zopa group of companies. Reflecting this, the Group’s RMF largely mirrors the Bank’s, and in most cases is implemented by the Bank. The rest of this section outlines the key features of the RMF.

[1] This is because the Bank is the principal operating entity within the Group and all principal activities, process and controls are managed at Bank level.



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 Bank's 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.
- No blame culture.
- 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

Risk appetite is set at Bank level. The Bank Board establishes 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 Bank Board via the Bank Board Risk Committee (BRC) and the Executive Bank Risk Management Committee (RMC), with remedial actions then agreed.

Three lines of defence

The Group's risk management processes – covering controls execution and monitoring, decision authorities, policy implementation and maintenance, application of procedures, risk event management and assurance reviews – are operated by the Bank. The Bank operates these processes under a 'Three Lines of Defence' structure:

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 Bank 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 Bank Board Audit Committee (BAC).

Key risks

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

Risk Type	Definition	Risk Profile
Credit Risk	The risk that the Group’s borrowers or other counterparties default on their loans or obligations.	Material risks • Consumer borrowers default on their unsecured personal loans, secured car loans or credit card loans. Other risks • Financial counterparties with whom the Group holds cash deposits default, • Non-financial counterparties paid in advance for goods and services default, • Entities for which the Group acts as a service provider fail to pay contractual charges, • Financial risks from climate change, including e.g. a potential fall in the value of existing auto collateral as part of the shift towards lower emission vehicles.
Capital Risk	The risk that the Group has insufficient capital to support its business strategy.	Material risks • Credit losses exceed provisioning or capital planning assumptions. Other risks • Any other losses exceed provisioning or capital planning assumptions.
Market and Interest Rate Risk	The risk that the Group experiences a loss in its banking book positions due to changes in the market price of financial instruments, or adverse movements in interest rates..	Material risks • Large unexpected change in interest rates or interest rate bases adversely impacting Net Interest Margin (NIM) and Economic Value of Equity (EVE) in Interest Rate Risk in the Banking Book (IRRBB) • Significant falls in the value of assets held in the liquid assets buffer being realised when they are sold in a stress. • Unrealsied losses arising from fair value movements of financial instruments.
Liquidity Risk	The risk that the Group is unable to meet its obligations as they fall due.	Material risks • Credit card outflows exceed expectations, • Easy access deposit withdrawals exceed expectations, • Loan prepayments fall short of expectations, • Loan delinquencies exceed expectations. Other risks • Rollover rate of maturing deposits falls short of expectations, • Early deposit withdrawals exceed expectations, • Funding not achievable or achievable at excessive cost only, • Outflows to corporate suppliers exceed expectations.
Operational Risk	The risk that the Group suffers losses stemming from inadequate or failed internal processes, people and systems, including fraud or risks from the impact of external events including legal risks. Operational risk includes compliance risk (the risk that the Company fails to meet its regulatory obligations) and conduct risk (the risk that the Company's actions result in poor customer outcomes).	Material risks • The Group is exposed to external fraud attempts or cyber-attacks, • The Group’s business is severely disrupted or its systems fail, • The Group fails to execute its plans, products and processes against internal and external expectations, • The Group’s products fail to behave or perform as expected. Other risks • The Group experiences a failure or defect in its performance of services for other Zopa Group entities, and is held liable for related losses, • The Group’s staff commit internal fraud, • The Group’s staff are treated unfairly or suffer injury requiring remediation, • The Group’s physical assets are damaged.

Strategic Risk	The risk of opportunity loss from the failure to optimise the earnings potential of Zopa's franchise.	<u>Material risks</u> • The Group is unable to attract business because of external competitive conditions, • The Group suffers reputational damage, making it difficult to attract or retain customers, • The Group is unable to raise funding for growth, through deposits or capital injections, • The Group is unable to attract and retain the talented staff required to deliver its business strategy.

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

Financial risk from climate change is also considered under the Risk Management Framework. Rather than being its own risk type, it is monitored and managed within:

- Credit Risk, since the transition to a low-carbon economy could impact the value of cars held as collateral on secured auto loans, and severe weather events could affect borrowers' homes and vehicles, impacting their finances and creditworthiness; and

- Strategic Risk, if long-term shifts in the climate create conditions that do not support Zopa's strategic goals.

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 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 Bank RMC is the principal executive-level committee responsible for risk oversight. It met 12 times in 2021; and
- a Bank 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 29 to 31 of the Group Annual Report and Accounts.

Policies and procedures

Policies, as set by the second line, set out the minimum standards that the Group 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 Group'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 Group's key annual assessments, including the Individual Capital Adequacy Assessment Process (ICAAP), Individual Liquidity Adequacy Assessment Process (ILAAP, which is solely at Bank level) and the Recovery Plan.

6 Capital risk

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

Risk Appetite

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

Capital risk management

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

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

Stress testing

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

Minimum capital requirement: Pillar 1

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

At 31 December 2021 and throughout the financial year, the Group complied with the capital requirements that were in force as set out by European and UK legislation and enforced by the PRA.

Table 2 shows the Group's capital requirement and capital surplus under Pillar 1.

	Risk weighted assets (£m)		**Capital requirement (£m)**	
	2021	**2020**	**2021**	**2020**
Credit risk	901	188	72	15
Operational risk	149	219	12	18
Total	**1,050**	**407**	**84**	**33**
Capital resources			261	123
Capital resources surplus over Pillar 1 requirement			**177**	**90**

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

Table 3: Capital composition

	2021 (£m)	**2020 (£m)**
Common Equity Tier 1		
Share capital	1	1
Share Premium	371	196
Other reserves	65	62
Retained earnings	(166)	(125)
Less: intangible assets	(9)	(11)
Total Common Equity Tier 1 capital (CET1)	**261**	**123**
Additional Tier 1	**-**	-
Total Tier 1 capital	**261**	**123**
Total capital resources	**261**	**123**
Risk weighted assets – Pillar 1		
Credit risk	901	188
Operational risk	149	219
Total risk weighted assets	**1,050**	**407**
Capital ratios		
Common Equity Tier 1 ratio	25%	29%
Tier 1 capital ratio	25%	29%
Total capital ratio	25%	29%

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

A regulatory adjustment is required to be made to the Group's CET1 capital in respect of intangible assets, as set out in CRD IV. For accounting purposes, items including computer software are capitalised as intangible fixed assets subject to certain criteria. Intangible assets are deducted from CET1 capital under the regulatory rules. The Group did not have any Additional Tier 1 capital or Tier 2 capital resources as at 31 December 2021.

The Group's Total Capital Requirement ("TCR") at 31 December 2021, as set by the PRA, was 11.38% of RWAs for Group.

Regulatory capital requirement buffers

CRD IV buffers

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

The following tables disclose information relevant for the calculation of the counter-cyclical buffer as at 31 December 2021 in accordance with Regulation (EU) 2015/1555.

Table 4: Geographical distribution of credit exposures relevant for the calculation of the counter-cyclical buffer

	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirement				Own funds req'ts weights	Counter-cyclical buffer rate
	Exposure value for Standardised Approach (SA)	Exposure value for Internal Rating Based (IRB) approach	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Sec'n exposures	Total		
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Breakdown by country:												
UK	1,219	-	-	-	-	-	71	-	-	-	100.0%	0%
Total	**1,219**	**-**	**-**	**-**	**-**	**-**	**71**	**-**	**-**	**-**	**100.0%**	**0%**

Table 5: Amount of institution specific counter-cyclical capital buffer

	£m
Own funds requirement	71
Institution specific counter-cyclical buffer rate	0%
Institution specific counter-cyclical buffer requirement	-

On 11th March 2020, the Financial Policy Committee ('FPC') reduced the CCyB to 0% in response to the Covid-19 pandemic, and the CCyB has remained at 0% throughout 2021.

Leverage ratio

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

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

The Group’s leverage ratio as at 31 December 2021 was 21% (2020: 38%). Common disclosure requirements for the leverage ratio have been introduced by the EBA in Implementing Technical Standard 2014/04 and updated by guidance EBA/GL/2016/11. The following tables are disclosed in accordance with this. Any blank cells in the templates have been removed from these disclosures.

Table 6: Summary reconciliation of accounting assets and leverage ratio exposures

		2021 (£m)	2020 (£m)
1	Total assets as per published financial statements	1,440	327
4	Adjustments for derivative financial instruments	-	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	3	1
7	Other adjustments	(200)	(11)
8	**Leverage ratio exposure**	**1,243**	**316**

Table 7: Leverage ratio common disclosure

		2021 (£m)	2020 (£m)
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	1,440	327
2	Asset amounts deducted in determining Tier 1 capital	(200)	(11)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**1,240**	**316**
	Derivative disclosures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-	-
5	Add-on amounts for PFE associated with all derivatives transactions (mark to market method)	-	-
11	**Total derivative exposures**	-	**-**
	Off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	34	5
18	(Adjustments for conversion to credit equivalent amounts)	(31)	(5)
19	**Other off-balance sheet exposures**	**3**	-
	Capital and Total Exposures		
20	**Tier 1 capital**	261	123
21	**Total leverage ratio exposures**	1,243	316
22	**Leverage ratio**	**21%**	**38%**
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in	Fully phased in

Table 8: Split-up of on-balance sheet exposures

Group

		2021(£m)	2020 (£m)
EU-1	**Total on-balance sheet exposures (excluding derivatives and SFTs), of which**	**1,464**	**321**
EU-2	**Trading book exposures**	**-**	**-**
EU-3	**Banking book exposures, of which:**	**-**	**-**
EU-4	Covered bonds	**-**	**-**
EU-5	Exposures treated as sovereigns	**208**	**49**
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	**-**	**-**
EU-7	Institutions	**37**	**28**
EU-8	Secured by mortgages of immovable properties	**-**	**-**
EU-9	Retail exposures	**1,201**	**231**
EU-10	Corporate	**-**	-
EU-11	Exposures in default	**6**	-
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	**12**	**13**

7 Credit risk

Credit risk arises from when the Group's borrowers or other counterparties default on their loans or obligations.

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

Risk appetite

Overall Credit Risk

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

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

Credit Concentration Risk

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

Counterparty Credit Risk

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

Risk management

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

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

Expected Credit Losses (ECL) are provided for in line with IFRS 9. Further details regarding the allowance for ECL are disclosed in the Group's Annual Report and Accounts (ARA) for 2021.

Minimum capital requirement: credit risk

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

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

Table 9: Group Pillar 1 capital requirements: credit risk

31 December 2021

Exposures subject to the Standardised Approach (£m)	Credit risk exposure	Average credit risk exposure[1]	Risk weighted assets	Min. capital requirement
Central government and central banks	208	119	-	-
Institutions	37	27	7	1
Corporates	-	-	-	-
Retail	1,168	645	875	70
Exposures at default	6	2	6	-
Other items	12	13	12	1
Total	**1,431**	**806**	**901**	**72**

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

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

31 December 2020

Exposures subject to the Standardised Approach (£m)	Credit risk exposure	Average credit risk exposure[1]	Risk weighted assets	Min. capital requirement
Central government and central banks	49	57	-	-
Institutions	28	21	6	-
Corporates	-	-	-	-
Retail	231	88	169	14
Exposures at default	-	-	-	-
Other items	13	4	13	1
Total	**321**	**170**	**188**	**15**

Table 10: Group Credit risk exposures by regulatory portfolio and risk weight.

At 31 December 2021	**0%**	**20%**	**75%**	**100%**	**Other risk weights**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Central government and central banks	208	-	-	-	-	208
Financial Institutions	-	37	-	-	-	37
Corporates	-	-	-	-	-	-
Retail	-	-	1,168	-	-	1,168
Exposures at default	-	-	-	6	-	6
Other items	-	-	-	12	-	12
Total	**208**	**37**	**1,168**	**18**	**-**	**1,431**

At 31 December 2020	**0%**	**20%**	**75%**	**100%**	**Other risk weights**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Central government and central banks	49	-	-	-	-	49
Financial Institutions	-	28	-	-	-	28
Corporates	-	-	-	-	-	-
Retail	-	-	231	-	-	231
Exposures at default	-	-	-	-	-	-
Other items	-	-	-	13	-	13
Total	**49**	**28**	**231**	**13**	**-**	**321**

Geographic distribution of credit risk exposures

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

Table 11: **Credit risk exposures by industry sector**

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

At 31 December 2021	Financial	Government and public administration	Personal[1]	Non-customer assets	Total
Standardised Approach	**£m**	**£m**	**£m**	**£m**	**£m**
Central government and central banks	-	208	-	-	208
Institutions	37	-	-	-	37
Corporates	-	-	-	-	-
Retail[1]	-	-	1,174	-	1,173
Other items	-	-	-	12	12
Total	**37**	**208**	**1,174**	**12**	**1,431**

At 31 December 2020	Financial	Government and public administration	Personal[1]	Non-customer assets	Total
Standardised Approach	**£m**	**£m**	**£m**	**£m**	**£m**
Central government and central banks	-	49	-	-	49
Institutions	28	-	-	-	28
Corporates	-	-	-	-	-
Retail[1]	-	-	231	-	231
Other items	-	-	-	13	13
Total	**28**	**49**	**231**	**13**	**321**

1 *Composed of exposures to Retail customers*

Table 12: Residual contractual maturity of credit risk exposures

The table below shows the Group's exposures at 31 December 2021 including off-balance sheet items, analysed by remaining contractual maturity.

At 31 December 2021	Within 1 year	After 1 year but within 5 years	More than 5 years	Undated	Total
	£m	£m		£m	£m
Central government and central banks	208	-	-	-	208
Institutions	37	-	-	-	37
Corporates	-	-	-	-	-
Retail[1]	41	1,086	4	77	1,208
Other items	-	-	-	12	12
Total	**286**	**1,086**	**4**	**89**	**1,465**

At 31 December 2020	Within 1 year	After 1 year but within 5 years	More than 5 years	Undated	Total
	£m	£m		£m	£m
Central government and central banks	49	-	-	-	49
Institutions	28	-	-	-	28
Corporates	-	-	-	-	-
Retail[1]	8	214	1	3	226
Other items	-	-	-	13	13
Total	**85**	**214**	**1**	**16**	**316**

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

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

Credit quality – Impairment and provisions

The Group's accounting policy for IFRS 9 impairment and provisions can be found in its Annual Report and Accounts for 2021.

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

Table 13: Analysis of loans and advances to customers by impairment status

	2021 (£m)	**2020 (£m)**
Neither past due nor impaired	1,192	236
Past due but not impaired		
Up to 30 days	10	1
30-60 days	6	1
60-90 days	4	-
Over 90 days	-	-
Total Past due but not impaired	20	2
POCI	5	-
Impaired Assets	10	1
Less: specific credit risk adjustment	(54)	(13)
Net Loans and Advances	1,173	225

In December 2021, the Group acquired, a portfolio of loans from retail investors in Zopa Limited's peer-to-peer platform, which included loans that are classified under IFRS 9 as 'purchased or originated credit-impaired' (POCI) on initial recognition.

Table 14 summarises the movement during the year in allowances for impairment losses (more detail provided in Note 32 of the Group Annual Report and Accounts):

	Stage 1		Stage 2		Stage 3		POCI		Total	
	Exposure (£m)	**ECL (£m)**	**Exposure (£m)**	**ECL (£m)**	**Exposure (£m)**	**ECL (£m)**	**Exposure (£m)**	**ECL (£m)**	**Exposure (£m)**	**ECL (£m)**
ECL allowance 1 January 2021	230	10	7	3	1	-	-	-	238	13
Transfer from Stage 1 to Stage 2	(11)	(1)	11	1	-	-	-	-	-	-
Transfer from Stage 2 to Stage 1	3	1	(3)	(1)	-	-	-	-	-	-
Transfers to Stage 3	(6)	-	(1)	(1)	7	1	-	-	-	-
Net ECL remeasurement on stage transfer	-	-	-	1	-	3	-	-	-	4
Change in economic scenarios	-	(1)	-	-	-	-	-	-	-	(1)
Change in ECL methodology	-	(2)	-	3	-	-	-	-	-	1
New lending and purchased assets	1,044	25	46	10	9	7	5	-	1,104	43
Redemptions and repayments	(109)	(5)	(4)	(1)	(1)	-	-	-	(114)	(5)
Disposal of assets outside of credit risk appetite	(1)	-	(1)	-	-	-	-	-	(1)	-
Written off assets	-	-	-	-	(1)	(1)	-	-	(1)	(1)
ECL allowance 31 December 2021	1,151	27	55	16	15	11	5	-	1,226	53
Net movement in the period	921	17	48	13	14	10	5		988	40
ECL charge to the Income Statement	-	17	-	13	-	10	-	-	-	40
Write off charge	-					1				1
Positive provision on POCI loans	-	-	-	-	-	-	-	-	-	-
Total ECL charge to the Income Statement	-	17	-	13	-	11	-	-	-	41

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

	Stage 1		Stage 2		Stage 3		POCI		Total	
	Exposure (£m)	ECL (£m)	Exposure (£m)	ECL (£m)	Exposure (£m)	ECL (£m)	Exposure (£m)	ECL (£m)	Exposure (£m)	ECL (£m)
ECL allowance 1 January 2020	15	-	1	-	-	-	-	-	17	-
Transfer from Stage 1 to Stage 2	(2)	-	2	-	-	-	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	(1)	-	1	-	-	-	-	-
Net ECL remeasurement on stage transfer	-	-	-	-	-	-	-	-	-	-
Change in economic scenarios	-	-	-	1	-	-	-	-	-	1
New lending and purchased assets	222	10	6	2	-	-	-	-	228	12
Redemptions and repayments	(5)	-	(1)	-	-	-	-	-	(6)	-
Written off assets	-	-	-	-	-	-	-	-	-	-
ECL allowance 31 December 2020	230	10	7	3	1	-	-	-	238	13
Net movement in the period	215	10	6	3	-	-	-		221	13
ECL charge to the Income Statement	-	10	-	3	-	-	-	-	-	13
Write off charge	-				-	-				-
Total ECL charge to the Income Statement	-	10	-	3	-	-	-	-	-	13

Forbearance

The Group encourages borrowers who are experiencing financial difficulties to draw up an affordable payment plan to pay down their arrears over time. Payment plans may offer temporary relief in the form of reductions to contractual payments.

At 31 December 2021, total outstanding balance on forbearance were £6,538k (31 December 2020: £1,939k), of which £2,133k were impaired (31 December 2020: £122k). At 31 December 2021, the allowance for loan losses held in respect of forbearance was £2,599k (31 December 2020: £423k).

Zopa Limited had no loans with forbearance on its balance sheet in either year. Therefore, the figures for Group and Bank are identical.

Credit risk mitigation: loans and advances to customers

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

For auto loans, the risk is further mitigated by obtaining collateral against the funds advanced. Collateral held as at 31 December 2021 amounted to £56.2m (31 December 2020: £10.4m).

Lending book credit risk concentration

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

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

Credit risk management: treasury assets

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

As at 31 December 2021 none of the treasury assets were past due or impaired. Credit ratings are based on the specific obligor the Group is exposed to.

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

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

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

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

8 Liquidity risk

Liquidity risk is the risk that a legal entity is unable to meet its short term obligations as they fall due. Within the Group, the Bank is the only entity with any significant liquidity risk and the Bank has policies in place which do not permit it to support the liquidity position of other legal entities within the Group. Hence, although the Group has adopted the Bank's risk appetite for liquidity risk the actual management of liquidity risk occurs solely at Bank level.

Risk appetite

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

Risk Profile

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

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

Retail deposits were predominantly fixed term as at 31 December 2021 and did not constitute a material liquidity risk**.**

Liquidity risk management

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

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

Liquidity ratios

The Liquidity Coverage Ratio (LCR) and Net Stable Funding ratio are managed at the Bank level and therefore are not shown at Group level. Please refer to Appendix 1.

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

Asset encumbrance

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

The Bank primarily encumbers assets through positioning loans as collateral against drawings under the Bank of England's Sterling Monetary Framework facilities. The Bank has used these assets to access funding through the Term Funding Scheme with additional incentives for SME ("TFSME") and through Indexed Long-Term Repo operations ("ILTR"). As at 31 December 2021, the Bank had £150m of drawings under the TFSME and £25m ILTR drawings. The Bank regularly monitors the level of encumbrance to ensure it is in line with the above approved internal risk appetite limits. The Pillar 3 asset disclosure templates, shown below, are prescriptive and have been compiled in accordance with PRA and EBA regulatory reporting requirements. This highlights the level of encumbered and unencumbered assets held by the Bank as at the 31 December 2021.

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

Template A: Encumbered and unencumbered assets
As at 31 December 2021

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		10	40	60	90
		£m	£m	£m	£m
10	Assets of the reporting institution	397	n/a	1,043	-
20	Loans on demand	3	-	226	-
30	Equity instruments	-	-	-	-
40	Debt securities	-	-	16	16
100	Loans and advances other than loans on demand	393	n/a	780	n/a
120	Other assets	1	n/a	21	n/a

Template B: Collateral received

No collateral has been received and therefore none is presented in liabilities as at 31 December 2020.

None of the collateral received by the Group entails encumbrance.

Template C: Encumbered assets/collateral received and associated liabilities

		Matching liabilities, contingent liabilities or securities lent	Matching liabilities, contingent liabilities or securities lent
		10	40
		£m	£m
10	Carrying amount of selected financial liabilities	397	175

9 Market and interest rate risk

Market and Interest Rate Risk is the risk that the Group 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 Group does not have a trading book, and as a result, does not carry out proprietary trading or hold any positions in assets or equity, except for high quality assets (HQLA).

Risk appetite

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

Management of interest rate risk

Levels of Interest Rate Risk in the Banking Book (IRRBB) are monitored at Bank level and regularly quantified and reviewed against limits. Risk appetite and other key MI are monitored by ALCO, RMC, BRC and Board at their regular meetings at Bank level. Please refer to Appendix 1.

The Group had no exposure to LIBOR.

10 Operational risk

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

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

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

Risk appetite

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

Risk Profile

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

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

Operational risk management

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

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

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

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

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

Operational risk capital calculation approach

As at 31 December 2021, the operational risk requirement for the Group under Pillar 1 is calculated using the Basic Indicator Approach, whereby a 15% multiplier is applied to the historical average net interest and fee income of the last three years based on audited financial statements. Given the Group is in the early stages of full operation, there are no actual historic figures available for the last three years, hence the Pillar 1 capital requirement for operational risk has been calculated using actual operating income for 2020 and 2021 and forecast operating income for 2022. Under this approach, the Pillar 1 operational risk requirement was £149m for the Group and £162m for the Bank as at 31 December 2021.

11 Conduct risk

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.

Risk Appetite

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

Conduct Risk Appetite is defined through Risk Metrics on customer outcomes and forward-looking conduct risks.

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

Risk Profile

The material types of Conduct Risk identified in the Group's business are:

- Improper product/service design (including responsible lending/affordability obligations)
- Improper marketing/ distribution
- Pre-sales service failure (including pre-contract disclosures and T&C's)
- Post-sale service failure (including statutory notices, statements and Complaints process)
- Failure to support customers in financial difficulties
- Failure to support vulnerable customers

Risk management

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

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

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

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

In addition, dedicated MI on Conduct Risk is integrated with the Risk Management Framework, and regularly presented to the Boards of Bank and Zopa Limited,.

12 Strategic risk

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

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

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

Material risks identified in relation to strategic risk are:

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

13 Governance

Full details of the Group's corporate governance structure, including details of the names of the Group's and Bank's Directors can be found in the 2021 Annual Reports and Accounts for each entity. Recruitment to the Board of Directors for each board is governed by its the terms of reference. The Bank Board of Directors has delegated responsibility to its Nomination and Remuneration Committee (NRC) to evaluate the skills, knowledge and experience of the Bank Board of Directors generally and determine the suitability of individual candidates for appointment to the Bank Board. The Group Board has not historically delegated responsibility for selection of its Directors to a Board Committee. As at 12 January 2022, all individuals appointed to the Bank Board are also appointed to the Group Board. The Group draws its Board and senior management team from a diverse pool with the express purpose of establishing a varied mix of skills, experience and outlook. Board members are screened for conflicts of interest and relationships with companies that do not meet our values and ethics. The Group is committed to promoting equal opportunities in employment. As such, recruitment at all levels is without discrimination on any protected characteristic.

Principal Uncertainties

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

Theme	Risk	Mitigation
Financial risk from climate change	The Group 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	• 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.

	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	
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

14 Remuneration

Remuneration practices and oversight are managed at Bank level within the Group and therefore this section covers the specific activities within the Bank. This remuneration disclosure is a requirement under Article 450 of the CRR. The following references the Bank's remuneration policies and practices for categories of staff whose professional activities have a material impact on the Bank's risk profile (Material Risk Takers ("MRTs")). MRTs include staff who hold Significant Management Functions ("SFs") as designated by the regulatory authorities. There were no MRTs in Zopa Limited during 2021.

The Bank's Nominations and Remuneration Committee is responsible for designing and implementing the reward structure of the Bank. The committee ensures that effective risk management is a key component of remuneration and incentive structures. The Nominations and Remuneration Committee met 7 times during the year. The Bank has used external legal counsel as consultants to assist with the determination of the remuneration policy.

For the composition and the mandate of Nominations and Remuneration Committee, please refer to page 33 of the Bank Annual Report & Accounts.

As a Bank with less than £13bn of assets, the Bank is classified as a "Level 3" firm, per PRA guidelines, with respect to proportionality of disclosures and is not subject to all remuneration requirements in the PRA Rulebook and FCA Handbook.

Approach to remuneration

The Bank's Remuneration Policy ensures that the Bank:

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

Components of Remuneration

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

Fixed Remuneration

Fixed remuneration constitutes the primary component of Remuneration. It should reflect the nature and responsibility of the position held, individual employee performance and market conditions primarily reflects a staff member's professional experience and organisational responsibility, as set out in their job description and/or terms of employment or engagement.

Variable Remuneration

Variable Remuneration is a component of Remuneration which reflects performance in excess of that required to fulfil the individual's job description and terms of employment. It aims to incentivise behaviours and desired results; create an alignment between the rewards and risk exposure; and provide motivation and foster a performance driven culture. It is subject to adjustment in accordance with the Rulebook and the Code (including Malus and Clawback provisions).

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

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

Non-executive directors must not receive variable pay.

Table 18 below sets out the remuneration of the Group's staff identified as MRTs and includes staff under the Senior Managers and Certification Regime (SMCR) and independent directors.

Group

2021	Fixed Remuneration (£000)	Variable Remuneration (£000)	Total Remuneration (£000)
Cash based	3,941	683	**4,623**
Shares or share-linked[1] instruments		1,657	**1,657**
Total	**3,941**	**2,339**	**6,280**
Number of MRT employees			**29**

[1] For the purposes of Pillar 3 Disclosures all share-linked instruments are considered variable remuneration. The related figures disclosed, are in line with IFRS 2 to align with the cost of share based plans recognised in the 2021 annual report and accounts

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

15 Disclosure omission rationale

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

Appendix 1- Disclosures for Zopa Bank Limited

A high level summary of the key capital and liquidity ratios for the Bank is provided below.

Table 1: Key ratios

	2021	**2020**
Common Equity Tier 1 (“CET1”) ratio	25%	30%
Tier 1 capital ratio	25%	30%
Total capital ratio	25%	30%
Risk weighted assets (£ million)	1056	391
Leverage ratio	21%	38%
Average Liquidity Coverage Ratio	7324%	292355%
Average total liquid assets (£ million)	85	41
Average liquidity outflows (£ million)	5	0
Average liquidity inflows (£ million)	4	0
Average net liquidity outflows (£ million)	1	0
Average Net Stable Funding Ratio	149%	164%
Average available stable funding (£ million)	748	162
Average required stable funding (£ million)	514	106

Minimum capital requirement: Pillar 1

Table 2 shows the Bank’s capital requirement and capital surplus under Pillar 1. At 31 December 2021 and throughout the financial year, the Bank complied with the capital requirements that were in force as set out by European and UK legislation and enforced by the PRA.

	Risk weighted assets (£m)		**Capital requirement (£m)**	
	2021	**2020**	**2021**	**2020**
Credit risk	898	181	72	14
Operational risk	162	210	13	17
Total	**1,060**	**391**	**85**	**31**
Capital resources			243	115
Capital resources surplus over Pillar 1 requirement			**158**	**84**

Capital composition

Table 3 shows the composition of the Bank's regulatory capital position.

	2021 (£m)	2020 (£m)
Common Equity Tier 1		
Share capital	349	192
Other reserves (Share Based Payment)	5	4
Retained earnings	(103)	(69)
Less: intangible assets	(9)	(12)
Total Common Equity Tier 1 capital (CET1)	**241**	**115**
Additional Tier 1	**-**	**-**
Total Tier 1 capital	**241**	**115**
Total capital resources	**241**	**115**
Risk weighted assets – Pillar 1		
Credit risk	898	181
Operational risk	162	210
Total risk weighted assets	**1,060**	**391**
Capital ratios		
Common Equity Tier 1 ratio	23%	30%
Tier 1 capital ratio	23%	30%
Total capital ratio	23%	30%

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

A regulatory adjustment is required to be made to the Group's CET1 capital in respect of intangible assets, as set out in CRD IV. For accounting purposes, items including computer software are capitalised as intangible fixed assets subject to certain criteria. Intangible assets are deducted from CET1 capital under the regulatory rules. The Group did not have any Additional Tier 1 capital or Tier 2 capital resources as at 31 December 2021.

The Bank's Total Capital Requirement ("TCR") at 31 December 2021, as set by the PRA, was 11.18% of RWAs for Bank.

Table 4: Geographical distribution of credit exposures relevant for the calculation of the counter-cyclical buffer

	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirement				Own funds req'ts weights	Counter-cyclical buffer rate
	Exposure value for Standardised Approach (SA)	Exposure value for Internal Rating Based (IRB) approach	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Sec'n exposures	Total		
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Breakdown by country:												
UK	1,216	-	-	-	-	-	71	-	-	-	100.0%	0%
Total	**1,216**	**-**	**-**	**-**	**-**	**-**	**71**	**-**	**-**	**-**	**100.0%**	**0%**

Table 5: Amount of institution specific counter-cyclical capital buffer

	Bank
	£m
Total risk exposure amount	71
Institution specific counter-cyclical buffer rate	0%
Institution specific counter-cyclical buffer requirement	-

Table 6: Leverage ratio

Summary reconciliation of accounting assets and leverage ratio exposures

		2021 (£m)	2020 (£m)
1	Total assets as per published financial statements	1,431	315
4	Adjustments for derivative financial instruments	1	2
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	3	0
7	Other adjustments	(201)	(14)
8	**Leverage ratio exposure**	**1,234**	**303**

Table 7: Leverage ratio common disclosure

		2021 (£m)	2020 (£m)
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	1,431	315
2	Asset amounts deducted in determining Tier 1 capital	(201)	(14)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**1,230**	**301**
	Derivative disclosures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-	2
5	Add-on amounts for PFE associated with all derivatives transactions (mark to market method)	-	-
11	**Total derivative exposures**	-	**2**
	Off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	34	5
18	(Adjustments for conversion to credit equivalent amounts)	(31)	(5)
19	**Other off-balance sheet exposures**	**3**	**-**
	Capital and Total Exposures		
20	**Tier 1 capital**	**241**	**115**
21	**Total leverage ratio exposures**	**1,234**	**303**
22	**Leverage ratio**	**20%**	**38%**
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in	Fully phased in

Table 8: Split-up of on-balance sheet exposures

		2021 (£m)	2020 (£m)
EU-1	**Total on-balance sheet exposures (excluding derivatives and SFTs), of which**	**1,455**	**301**
EU-2	**Trading book exposures**	**-**	**-**
EU-3	**Banking book exposures, of which:**	**-**	**-**
EU-4	Covered bonds	**-**	**-**
EU-5	Exposures treated as sovereigns	**208**	**48**
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	**-**	**-**
EU-7	Institutions	**30**	**22**
EU-8	Secured by mortgages of immovable properties	**-**	**-**
EU-9	Retail exposures	**1,201**	**225**
EU-10	Corporate	**-**	**-**
EU-11	Exposures in default	**6**	-
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	**10**	**6**

Table 9: Pillar 1 capital requirement: credit risk

31 December 2021

Exposures subject to the Standardised Approach (£m)	Credit risk exposure	Average credit risk exposure[1]	Risk weighted assets	Min. capital requirement
Central government and central banks	208	118	-	-
Institutions	30	20	6	1
Corporates	-	1	-	-
Retail	1,168	645	875	70
Exposures at default	6	2	6	-
Other items	10	10	10	1
Total	**1,422**	**797**	**897**	**72**

31 December 2020

Exposures subject to the Standardised Approach (£m)	Credit risk exposure	Average credit risk exposure[1]	Risk weighted assets	Min. capital requirement
Central government and central banks	48	57	-	-
Institutions	22	17	5	-
Corporates	2	1	2	-
Retail	225	90	169	14
Exposures at default	-	-	-	-
Other items	6	5	5	-
Total	**303**	**170**	**181**	**14**

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

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

Table 10: Credit risk exposures by regulatory portfolio and risk weight

At 31 December 2021	0%	20%	75%	100%	Other risk weights	Total
	£m	£m	£m	£m	£m	£m
Central government and central banks	208	-	-	-	-	208
Financial Institutions	-	30	-	-	-	30
Corporates	-	-	-	-	-	-
Retail	-	-	1168	-	-	1,168
Exposures at default	-	-	-	6	-	6
Other items	-	-	-	10	-	10
Total	**208**	**30**	**1,168**	**16**	**-**	**1,422**

At 31 December 2020	0%	20%	75%	100%	Other risk weights	Total
	£m	£m	£m	£m	£m	£m
Central government and central banks	48	-	-	-	-	48
Financial Institutions	-	22	-	-	-	22
Corporates	-	-	-	2	-	2
Retail	-	-	225	-	-	225
Exposures at default	-	-	-	-	-	-
Other items	-	-	-	6	-	6
Total	**48**	**22**	**225**	**8**	**-**	**303**

Geographic distribution of credit risk exposures

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

Table 11: Credit risk exposures by industry sector

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

At 31 December 2021	Financial	Government and public administration	Personal[1]	Non-customer assets	Total
Standardised Approach	**£m**	**£m**	**£m**	**£m**	**£m**
Central government and central banks	-	208	-	-	208
Institutions	30	-	-	-	30
Corporates	-	-	-	-	-
Retail[1]	-	-	1,174	-	1,174
Other items	-	-	-	10	10
Total	**31**	**208**	**1,174**	**10**	**1,422**

At 31 December 2020	Financial	Government and public administration	Personal[1]	Non-customer assets	Total
Standardised Approach	**£m**	**£m**	**£m**	**£m**	**£m**
Central government and central banks	-	48	-	-	48
Institutions	22	-	-	-	22
Corporates	2	-	-	-	2
Retail[1]	-	-	225	-	225
Other items	-	-	-	6	6
Total	**24**	**48**	**225**	**5**	**303**

1 *Composed of exposures to Retail customers*

Table 12: Residual contractual maturity of credit risk exposures

The table below shows the Group's exposures at 31 December 2021 and a comparison to the previous year, including off-balance sheet items, analysed by remaining contractual maturity.

At 31 December 2021	Within 1 year	After 1 year but within 5 years	More than 5 years	Undated	Total
	£m	£m		£m	£m
Central government and central banks	208	-	-	-	208
Institutions	30	-	-	-	30
Corporates	-	-	-	-	-
Retail[1]	41	1,086	4	77	1,208
Other items	-	-	-	10	10
Total	**279**	**1,086**	**4**	**87**	**1,455**

At 31 December 2020	Within 1 year	After 1 year but within 5 years	More than 5 years	Undated	Total
	£m	£m		£m	£m
Central government and central banks	48	-	-	-	48
Institutions	22	-	-	-	22
Corporates	2	-	-	-	2
Retail[1]	11	213	1	-	225
Other items	-	-	-	6	6
Total	**83**	**213**	**1**	**6**	**303**

[2] *Composed of exposures to Retail customers.*

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

Table 13: Credit quality – Impairment and provisions

	2021 (£m)	2020 (£m)
Neither past due nor impaired	1,192	236
Past due but not impaired		
Up to 30 days	8	1
30-60 days	5	0
60-90 days	3	-
Over 90 days	-	-
Total Past due but not impaired	16	1
POCI	5	-
Impaired Assets	14	1
Less: specific credit risk adjustment	(53)	(13)
Net Loans and Advances	1,173	225

Table 14: Movement during the year in allowances for impairment losses:

	Stage 1		Stage 2		Stage 3		POCI		Total	
	Exposure (£m)	ECL (£m)	Exposure (£m)	ECL (£m)	Exposure (£m)	ECL (£m)	Exposure (£m)	ECL (£m)	Exposure (£m)	ECL (£m)
ECL allowance 1 January 2021	230	10	7	3	1	-	-	-	238	13
Transfer from Stage 1 to Stage 2	(11)	(1)	11	1	-	-	-	-	-	-
Transfer from Stage 2 to Stage 1	3	1	(3)	(1)	-	-	-	-	-	-
Transfers to Stage 3	(5)	-	(1)	(1)	7	1	-	-	-	-
Net ECL remeasurement on stage transfer	-	-	-	1	-	3	-	-	-	4
Change in economic risk parameters	-	(1)	-	-	-	-	-	-	-	(1)
Change in ECL methodology	-	(2)	-	3	-	-	-	-	-	1
New lending and purchased assets	1,044	25	46	10	9	7	5	-	1,104	43
Redemptions and repayments	(109)	(5)	(4)	(1)	(1)	-	-	-	(114)	(5)
Disposal of assets outside of credit risk appetite	-	-	(1)	-	-	-	-	-	(1)	(1)
Written off assets	-	-	-	-	(1)	(1)	-	-	(1)	(1)
ECL allowance 31 December 2021	1,151	27	55	16	15	11	5	-	1,222	53
Net movement in the period	922	17	48	13	14	10	5	-	988	40
ECL charge to the Income Statement	-	17	-	13	-	10	-	-	-	40
Write off charge	-	-	-	-	-	1	-	-	-	1
Positive provision on POCI loans	-	-	-	-	-	-	-	-	-	-
Total ECL charge to the Income Statement	-	17	-	13	-	11	-	-	-	41

	Stage 1		Stage 2		Stage 3		POCI		Total	
	Exposure (£m)	**ECL (£m)**	**Exposure (£m)**	**ECL (£m)**	**Exposure (£m)**	**ECL (£m)**	**Exposure (£m)**	**ECL (£m)**	**Exposure (£m)**	**ECL (£m)**
ECL allowance 1 January 2020	15	-	1	-	-	-	-	-	17	-
Transfer from Stage 1 to Stage 2	(2)	-	2	-	-	-	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-	-	-	-	-	-	-
Transfers to Stage 3	(1)	-	-	-	1	-	-	-	-	-
Net ECL remeasurement on stage transfer	-	-	-	-	-	-	-	-	-	-
Change in economic risk parameters	-	-	-	1	-	-	-	-	-	1
Change in ECL methodology	-	-	-	-	-	-	-	-	-	-
New lending and purchased assets	(222)	10	6	2	-	-	-	-	228	12
Redemptions and repayments	(5)	-	(1)	-	-	-	-	-	(6)	-
Written off assets	-	-	-	-	- -	-	-	-	-	-
ECL allowance 31 December 2020	229	10	8	3	1	-	-	-	238	13
Net movement in the period	214	10	7	3	1	-	-	-	-	132
ECL charge to the Income Statement	-	10	-	3	-	-	-	-	-	13
Write off charge	-				-	-	-	-	-	-
Total ECL charge to the Income Statement	-	10	-	3	-	-	-	-	-	13

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.

Table 15 : Liquidity Ratios

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

The table below shows the liquidity ratios:

	2021 £m	2020 £m
Liquidity Coverage Ratio		
Total high-quality liquid assets (HQLA)	208	48
Total net cash outflow	2	-
LCR (%)	9,360	13,597

The Bank's NSFR aims to ensure that the Bank has an acceptable amount of stable funding available compared to stable funding required. As at 31 December 2021 the NSFR was 136% (31 December 2020: 160%).

Table 16: Asset encumbrance

Template A: Encumbered and unencumbered assets
At 31 December 2021

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		10	40	60	90
		£m	£m	£m	£m
10	Assets of the reporting institution	396	n/a	1,035	-
20	Loans on demand	3	-	219	-
30	Equity instruments	-	-	-	-
40	Debt securities	-	-	16	16
100	Loans and advances other than loans on demand	393	n/a	780	n/a
120	Other assets	-	n/a	20	n/a

Template B: Collateral received

None of the collateral received by the Bank entails encumbrance.

		Matching liabilities, contingent liabilities or securities lent	Matching liabilities, contingent liabilities or securities lent
		10	40
		£m	£m
10	Carrying amount of selected financial liabilities	396	175

Management of interest rate risk

The risk profile of market and interest rate risk as at 31 December 2021, and throughout 2021, continued to be within the risk appetite. Table 17 below shows the impact of a 2% shift in the yield curve economic value of equity (ΔEVE):

Table 17

	2021 £m
2% shift up of the yield curve:	
As at year end	(5)
Average of month end positions reported to ALCO	(2)
2% shift down of the yield curve:	
As at year end	4.9
Average of month end positions reported to ALCO	2.3

	2020 £m
2% shift up of the yield curve:	
As at year end	(5)
Average of month end positions reported to ALCO	(2)
2% shift down of the yield curve:	
As at year end	5
Average of month end positions reported to ALCO	2

The Bank had no exposure to LIBOR.

Table 18: Remuneration

Remuneration of the Bank's staff identified as MRTs and includes staff under the Senior Managers and verification Regime (SMCR) and independent directors is shown in section 14.

2021	Fixed Remuneration (£000)	Variable Remuneration (£000)	Total Remuneration (£000)
Cash based	3,767	630	**4,397**
Shares or share-linked[1] instruments	-	1,390	**1,390**
Total	**3,767**	**2,020**	**5,787**
Number of MRT employees			**27**

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

Appendix 2- Zopa Group Limited Own Funds Disclosure Template

Own funds disclosure template		2021 (£m)	Regulation (EU) No 575/2013 article reference
Common Equity Tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	372	26 (1), 27, 28, 29
	of which: ordinary share capital	1	EBA list 26 (3)
	of which: Instrument type 2	-	EBA list 26 (3)
	of which: Instrument type 3	-	EBA list 26 (3)
2	Retained earnings	(166)	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	65	26 (1)
3a	Funds for general banking risk	-	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	486 (2)
5	Minority interests (amount allowed in consolidated CET1)	-	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**271**	**Sum of rows 1 to 5a**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(9)	36 (1) (b), 37, 472 (4)
9	Empty set in the EU	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	-	33 (1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts	-	36 (1) (d), 40, 159
12a	IFRS 9 transitional adjustment to CET	-	473a
13	Any increase in equity that results from securitised assets (negative amount)	-	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	33 (1) (b)
15	Defined-benefit pension fund assets (negative amount)	-	36 (1) (e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36 (1) (f), 42
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross-holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36 (1) (g), 44

Own funds disclosure template		2021 (£m)	Regulation (EU) No 575/2013 article reference
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (h), 43, 45, 46, 49 (2) (3), 79
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (I), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79
20	Empty set in the EU	-	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative amount	-	36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions (negative amount)	-	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	of which: free deliveries (negative amount)	-	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary difference (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount	-	36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the 15% threshold (negative amount)	-	48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	36 (1) (i), 48 (1) (b)
24	Empty set in the EU	-	
25	of which: deferred tax assets arising from temporary difference	-	36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)	-	36 (1) (a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	36 (1) (l)
27	(negative amount)	-	36 (1) (j)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(9)	Sum of rows 7 to 20a, 21, 22 and 25a to 27
29	**Common Equity Tier 1 (CET1) capital**	**261**	Row 6 minus row 28
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	-	51, 52
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-	486 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	-	85, 86
35	f which: instruments issued by subsidiaries subject to phase-out	-	486 (3)
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	-	Sum of rows 30, 33 and 34

Own funds disclosure template	2021 (£m)	Regulation (EU) No 575/2013 article reference

Additional Tier 1 (AT1) capital: regulatory adjustment			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	52 (1) (b), 56 (a), 57
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross-holdings with the institution designed to artificially inflate the own funds of the institution (negative amount)	-	56 (b), 58
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (c), 59, 60, 79
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (d), 59, 79
41	Empty set in the EU	-	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56 (e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**	Sum of rows 37 to 42
44	**Additional Tier 1 (AT1) capital**	**-**	Row 36 minus row 43
45	**Tier 1 capital (T1 = CET1 + AT1)**	**261**	Sum of row 29 and row 44
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	**-**	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	**-**	486 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	**-**	87, 88
49	of which: instruments issued by subsidiaries subject to phase-out	**-**	486 (4)
50	Credit risk adjustment	**-**	62 (c) & (d)
51	**Tier 2 (T2) capital before regulatory adjustment**	**-**	

Own funds disclosure template		2021 (£m)	Regulation (EU) No 575/2013 article reference
Tier 2 (T2) capital: instruments and provisions			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	**-**	63 (b) (i), 66 (a), 67

53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross-holdings with the institutions designed to artificially inflate the own funds of the institution (negative amount)	-	66 (b), 68
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	66 (c), 69, 70, 79
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	-	66 (d), 69, 79
56	Empty set in the EU	-	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**	Sum of rows 52 to 56
58	**Tier 2 (T2) capital**	**-**	Row 51 minus row 57
59	**Total capital (TC = T1 + T2)**	**261**	Sum of row 45 and row 58
60	**Total risk-weighted assets**	**1,050**	

Capital ratios and buffer

61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	29.5%	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount)	29.5%	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	29.5%	92 (2) (c)
64	Institution-specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	7.0%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	0.0%	
67	of which: systemic risk buffer requirement		
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	23%	CRD 128
69	[non-relevant in EU regulation]	-	
70	[non-relevant in EU regulation]	-	
71	[non-relevant in EU regulation]	-	

Own funds disclosure template	2021 (£m)	Regulation (EU) No 575/2013 article reference
Amounts below the thresholds for deduction (before risk-weighting)		

72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	36 (1) (h), 45, 46, 56 (c), 59, 60, 66 (c), 69, 70
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	36 (1) (i), 45, 4
74	Empty set in the EU	-	
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)	-	36 (1) (c), 38, 48

Applicable caps on the inclusion of provisions in Tier 2

76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap	-	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap	-	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings based approach	-	62

Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)

80	- Current cap on CET1 instruments subject to phase-out arrangements	-	484 (3), 486 (2) & (5)
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484 (3), 486 (2) & (5
82	-Current cap on AT1 instruments subject to phase-out arrangement	-	484 (4), 486 (3) & (5)
83	-Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484 (4), 486 (3) & (5)
84	- Current cap on T2 instruments subject to phase-out arrangements	-	484 (5), 486 (4) & (5
85	-Amount excluded from T2 due to cap (excess over cap after redemptions and maturities	-	484 (5), 486 (4) & (5)

Appendix 3- Zopa Bank Limited Own Funds Disclosure Template

Own funds disclosure template		2021 (£m)	Regulation (EU) No 575/2013 article reference
Common Equity Tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	349	26 (1), 27, 28, 29
	of which: ordinary share capital	349	EBA list 26 (3)
	of which: Instrument type 2	-	EBA list 26 (3)
	of which: Instrument type 3	-	EBA list 26 (3)
2	Retained earnings	(103)	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	6	26 (1)
3a	Funds for general banking risk	-	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	486 (2)
5	Minority interests (amount allowed in consolidated CET1)	-	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**252**	**Sum of rows 1 to 5a**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(9)	36 (1) (b), 37, 472 (4)
9	Empty set in the EU	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	-	33 (1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts	-	36 (1) (d), 40, 159
12a	IFRS 9 transitional adjustment to CET	-	473a
13	Any increase in equity that results from securitised assets (negative amount)	-	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	33 (1) (b)
15	Defined-benefit pension fund assets (negative amount)	-	36 (1) (e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36 (1) (f), 42
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross-holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36 (1) (g), 44

Own funds disclosure template		2021 (£m)	Regulation (EU) No 575/2013 article reference
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (h), 43, 45, 46, 49 (2) (3), 79
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (I), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79
20	Empty set in the EU	-	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative amount	-	36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions (negative amount)	-	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	of which: free deliveries (negative amount)	-	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary difference (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount	-	36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the 15% threshold (negative amount)	-	48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	36 (1) (i), 48 (1) (b)
24	Empty set in the EU	-	
25	of which: deferred tax assets arising from temporary difference	-	36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)	-	36 (1) (a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	36 (1) (l)
27	(negative amount)	-	36 (1) (j)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(9)	Sum of rows 7 to 20a, 21, 22 and 25a to 27
29	**Common Equity Tier 1 (CET1) capital**	**243**	Row 6 minus row 28

Additional Tier 1 (AT1) capital: instruments

30	Capital instruments and the related share premium accounts	-	51, 52
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	

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

	Own funds disclosure template	**2021 (£m)**	**Regulation (EU) No 575/2013 article reference**
	Additional Tier 1 (AT1) capital: regulatory adjustment		
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	52 (1) (b), 56 (a), 57
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross-holdings with the institution designed to artificially inflate the own funds of the institution (negative amount)	-	56 (b), 58
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (c), 59, 60, 79
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (d), 59, 79
41	Empty set in the EU	-	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56 (e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**	Sum of rows 37 to 42
44	**Additional Tier 1 (AT1) capital**	**-**	Row 36 minus row 43
45	**Tier 1 capital (T1 = CET1 + AT1)**	**243**	Sum of row 29 and row 44
	Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	**-**	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	**-**	486 (4)

48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	-	87, 88
49	of which: instruments issued by subsidiaries subject to phase-out	-	486 (4)
50	Credit risk adjustment	-	62 (c) & (d)
51	**Tier 2 (T2) capital before regulatory adjustment**	-	

	Own funds disclosure template	2021 (£m)	Regulation (EU) No 575/2013 article reference
	Tier 2 (T2) capital: instruments and provisions		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63 (b) (i), 66 (a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross-holdings with the institutions designed to artificially inflate the own funds of the institution (negative amount)	-	66 (b), 68
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	66 (c), 69, 70, 79
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	-	66 (d), 69, 79
56	Empty set in the EU	-	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-	Sum of rows 52 to 56
58	**Tier 2 (T2) capital**	-	Row 51 minus row 57
59	**Total capital (TC = T1 + T2)**	**243**	Sum of row 45 and row 58
60	**Total risk-weighted assets**	**1,060**	
	Capital ratios and buffer		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	23%	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount)	23%	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	23%	92 (2) (c)
64	Institution-specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	7.0%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	0.0%	
67	of which: systemic risk buffer requirement		
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer		

68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	17%	CRD 128
69	[non-relevant in EU regulation]	-	
70	[non-relevant in EU regulation]	-	
71	[non-relevant in EU regulation]	-	

	Own funds disclosure template	**2021 (£m)**	**Regulation (EU) No 575/2013 article reference**
	Amounts below the thresholds for deduction (before risk-weighting)		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	36 (1) (h), 45, 46, 56 (c), 59, 60, 66 (c), 69, 70
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	36 (1) (i), 45, 4
74	Empty set in the EU	-	
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)	-	36 (1) (c), 38, 48
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap	-	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap	-	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings based approach	-	62
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	- Current cap on CET1 instruments subject to phase-out arrangements	-	484 (3), 486 (2) & (5)
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484 (3), 486 (2) & (5
82	-Current cap on AT1 instruments subject to phase-out arrangement	-	484 (4), 486 (3) & (5)
83	-Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484 (4), 486 (3) & (5)
84	- Current cap on T2 instruments subject to phase-out arrangements	-	484 (5), 486 (4) & (5
85	-Amount excluded from T2 due to cap (excess over cap after redemptions and maturities	-	484 (5), 486 (4) & (5)

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