ZOPA GROUP LIMITED

Annual Report and Accounts for the year ended 31 December 2022

COMPANY INFORMATION

Registered office and head office
First Floor Cottons Centre
47–49 Tooley Street
London
England
SE1 2QG

Company registered number
10624955

Principal Bankers
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London
EC2R 8BP

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
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STRATEGIC REPORT

Business review

Zopa Group Limited ('the Company') is the financial holding company of Zopa Group ('the Group' or 'Zopa'). Zopa Group provides retail banking and consumer finance services. The Company is a private limited company limited by shares incorporated in England & Wales and domiciled in the United Kingdom under the Companies Act 2006 (registered number 10624955). The registered office is at First Floor, Cottons Centre, 47–49 Tooley Street, London, England, SE1 2QG.

In December 2021, the Company became regulated by the Prudential Regulation Authority (PRA) as a financial holding company of Zopa Bank Limited ('the Bank'). The Bank is a public interest entity, authorised by the PRA and regulated by the Financial Conduct Authority (FCA) and the PRA.

In 2022 the Group, through its main operating subsidiary – the Bank, continued to offer products that met the borrowing and saving needs of its customers. The business model relies on providing affordable fairly priced credit in the form of unsecured personal loans ('UPL'), car finance and credit cards. These are funded primarily by retail savings that give competitive returns.

On 10 February 2022, the Group sold Zopa Limited to Plata Holdings UK Limited, an affiliate of IAG Silverstripe Partners LLC, which is also a related party of Zopa Group. Zopa Limited was a 100% owned subsidiary of Zopa Group Limited and was consolidated into the Group's 2021 consolidated financial statements. Following the sale to Plata Holdings UK Limited, Zopa Group no longer controls Zopa Limited and thus Zopa Limited hasn't been included in the 2022 consolidated financial statements. The sale of Zopa Limited was the final step in the Group's exit from the peer-to-peer lending market.

The economic environment ended 2022 worse than it started. The last year has seen a war in Europe, multiple changes to the UK's political leadership, inflationary pressures from rising energy prices and ongoing supply chain issues. As a result, the UK has been subject to significant increases in base rates which have reached their highest levels since 2008 to combat inflation, which itself reached levels not observed since the 1980s. In 2022, employers started to cut costs, leading to early signs of rising unemployment, with consumer confidence falling to its lowest sustained level for nearly 50 years. Together, these factors have created an unprecedented economic environment, with many regular households facing some form of cost-of-living crisis. These households now face falling disposable incomes in real terms, with the largest fall in living standards for six decades expected. Some households are well insulated from these changes with strong saving buffers, but these are likely to be reduced over the coming year as rising rental and mortgage costs flow through.

As a result, the Group took steps during the year to prioritise credit resilience. This primarily meant tightening of lending criteria away from our riskier segments and using increased loan pricing to provide additional margin to cover against any risk of higher credit impairments as well as rising cost of funds. The Group's focus on mostly prime lending means that our borrowers are more resilient to economic challenges. The Group will continue to leverage its 17 years of through-the-cycle lending experience to ensure that credit risk is disciplined and well managed.

Financial review

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

Financial performance KPIs	**2022**	2021[1]	Change
Total operating income	**£153.7m**	£53.8m	+186%
Operating expenses	**£76.2m**	£60.6m	+26%
Expected credit losses and similar charges	**£100.6m**	£41.6m	+142%
Net operating income / (loss)	**£77.6m**	(£6.8m)	nmf[2]
Loss before tax	**£23.8m**	£48.3m	-51%
Loss after tax	**£23.8m**	£48.2m	-51%

Total operating income increased significantly to £153.7m, up 186%, due to the continued growth in customers choosing to use Zopa to meet their borrowing and saving needs. The growth in total operating income continues to come from interest income through the lending products, with the majority from UPL. In 2022, the Group also earned a higher level of interest income from cash balances due to holding surplus deposits and a higher base rate. The Group's strategy continues to be underpinned by lending products that exhibit strong unit economics with fast payback periods to prioritise long-term profitability.

Total operating expenses rose during the year by 25%, primarily to support growth. The rise in operating expenses is significantly below the rate of customer growth, demonstrating the Group's ability to scale in a lean manner. However, like all businesses, the Group faced inflationary pressures and is actively taking steps to reduce those pressures.

[1] Certain KPIs in 2021 have been restated. Refer to Note 35 of the financial statements for further details.
[2] NMF – no meaningful figure.

The ECL charge for the year was £100.6m (2021: £41.6m), primarily due to 75% growth in gross loans on balance sheet as well as a worsening economic outlook.

The net operating income increased to £77.6m (2021: £6.8m loss), supported by £2.1bn gross loans on balance sheet and nearly a tripling of the retail deposit base to £2.9bn. The loss after tax reduced substantially, primarily driven by reaching more customers, to deliver a larger, more mature balance sheet with substantial growth in net operating income, supported by a slower growing cost base.

Financial position KPIs	**2022**	2021	Change
Cash and cash equivalents	**£1.4bn**	£0.2bn	+600%
Gross loans and advances to customers	**£2.1bn**	£1.2bn	+75%
Expected credit losses allowance	**£141.1m**	£53.5m	+164%
Deposits from customers	**£2.9bn**	£1.0bn	+190%
Total equity	**£299.7m**	£264.3m	+13%

In February 2022, Zopa Bank launched Smart Saver, a new easy access and notice account proposition. This opened the savings proposition to more customers who could now save for their everyday needs, rather than just on a fixed-term basis. This also allowed the Group to grow its deposit base at a lower cost of funding. At year-end, total deposit balances had grown by 190% to £2.9bn. As a result, the cash and cash equivalents had also increased significantly to £1.4bn (2021: £0.2bn).

In 2022, the Group also saw a 75% increase in gross loans on balance sheet to £2.1bn, reflective of the amount of gross new lending during the year. At year-end, most of the gross loans on balance sheet were made up of UPL (78%), followed by car finance (14%). Despite credit cards being the biggest product by customers, it is the smallest product on the balance sheet (8%), given that the exposure to each customer is small. Building the balance sheet to a meaningful size continues to be a core part of the Group's strategy, and these assets are the main driver of net operating income.

The ECLs allowance at year-end was £141.1m (2021: £53.5m), which represents a coverage ratio of 6.7% of our total gross loans and advances to customers (2021: 4.4%). The increase in coverage ratio was driven mainly by the impact of revised economic outlook. This led to an increase in ECL allowance on new originations and the back-book. Despite this, in 2022, the Group's sophisticated approach to credit risk management and proactive tightening has meant that credit performance has remained consistent with that observed by the Zopa franchise pre-pandemic. In addition, as the Group's loan portfolios mature the impact of ECLs on the growing balance sheet will gradually moderate giving benefits to the cost of risk metric and to overall financial performance.

Following the £220m capital raise completed in 2021, the Group's capital position remained strong throughout the year. In January 2023, the Group successfully raised another £75m in equity capital to invest in further growth.

Future developments

In 2022, Zopa Group entered discussions around a potential asset acquisition of Rematch Credit Limited (trading as DivideBuy), a point-of-sale lender in the UK. The first stage of this transaction completed in February 2023, with Zopa Group purchasing DivideBuy's technology platform. The second stage of the transaction, which includes transfer of people as well as novation of key suppliers and merchants completed on 1 April 2023. This supports the Group's growth strategy of further expanding its reach into new lending segments. Integration is expected to complete over the course of 2023.

Within existing products, the Group will continue further product development to exceed the borrowing and saving needs of its customers. The Group will also look to leverage new and existing partnerships to expand its distribution and increase its market penetration. In support of its growth strategy, the Group is also continuing to explore suitable inorganic opportunities.

The Group will continue monitoring the uncertain economic environment and its impact on customers. As in 2022, the Group will take appropriate steps to support customers, manage credit risk and continue investing in its sophisticated credit underwriting capabilities. Given the Group is focused on consumer lending, any further material economic worsening represents a risk to future performance and short-term profitability.

Section 172 disclosure

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

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

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

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

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

Our shareholders
Directors and senior management engage in regular and fair dialogue with the company's shareholders to share strategic and financial updates and to seek feedback. During 2022, those discussions covered a broad range of topics, including the medium- and long-term strategic direction of the Group, financial performance and plan, market dynamics, regulatory areas of focus, succession planning, diversity and engagement with other stakeholders.

All our shareholders' legal rights and obligations are set out in the company's Articles of Association, Master Shareholders' Agreement and Individual Shareholder Agreements (which are in place for our larger investors). Where any of our shareholders have rights to acquire further shares under warrant instruments, these rights are set out separately in the applicable warrant instruments. The Board ensures that any decisions are taken in the best interests of all shareholders, regardless of their shareholding size. Although the Group's not currently required to hold an Annual General Meeting, the Board sought to engage with all types of shareholders during the past year.

Stakeholder	How we engaged	What matters to them	How the Board considers it
Board-level investors These are our largest shareholders, with representation on the Board.	• Discussions in Board and Board Committee meetings • Provision of quarterly investor reports • Submission of investor-specific information packs	• Corporate strategic direction • Product growth • Financial performance • Strong management and aligned incentives • Market perception • Impact of future dilution • Valuation outcomes and exit	Our largest shareholders currently sit on the Board and therefore have direct input into key matters discussed at the Board level. The Board's involvement is through: • An Annual Strategy and Budget Process. The Board considers the likely capital needs and valuation outcomes as part of this process. • Product growth and financial performance is monitored through the receipt and discussion of regular MI cadence. • Management performance is assessed against an annual scorecard agreed at the start of the year. Short-term management incentives are aligned to that scorecard, while longer-term incentives
Major investors These shareholders own a higher percentage of our business than regular shareholders.	• Quarterly and ad-hoc meetings between investors and senior management • Provision of quarterly investor reports	• Corporate strategic direction • Product growth • Financial performance • Strong management and aligned incentives • Market perception • Impact of future dilution • Valuation outcomes and exit	

			are aligned to overall long-term business and share price performance. • Where required, the Board also receives external advice on key topics such as management incentives, market outlook, valuation, strategy and growth. • Discussion and approval of key strategic decisions relating to disposal of Zopa Limited and acquisition of DivideBuy's assets.
Regular investors These shareholders are mostly our early-stage investors, founders and members of senior management.	• Ad-hoc meetings with senior management at investors' requests • Provision of quarterly investor updates • Provision of a secondary market for investors to sell their shares to other existing investors in the company	• Liquidity events • Long-term business performance	The Board provided the opportunity for eligible existing shareholders as well as current and ex-employees to participate in a secondary share sale process to sell their shares. The Board considers long-term business performance as part of the Annual Strategy and Budget process, and it considers likely capital needs and valuation outcomes as part of that process.
Existing and former employees These shareholders are employees whose share options have already vested and been retained by the employees.	• Quarterly and ad-hoc meetings between investors and senior management • Provision of quarterly investor updates	• Valuation outcomes • Liquidity events • Long-term business performance	The Board provided the opportunity for eligible existing shareholders as well as current and ex-employees to participate in a secondary share sale process to sell their shares. The Board considers long-term business performance as part of the Annual Strategy and Budget process, and it considers likely capital needs and valuation outcomes as part of that process.

Our employees

Our people are at the heart of our success, and we strive to serve their needs in all that we do. We're proud of our unique culture, which is fuelled by purpose, drive, empowerment and collaboration. The Board's committed to reinforcing, recognising and rewarding this culture throughout the governance framework at Zopa.

Diversity and inclusion (D&I) has been mandated as part of the Board and Management Committees' agendas. Progress has been made with company engagement, engagement of diverse groups and senior female representation. The Women in Finance Charter targets have been included as factors in deciding the leadership team's bonus element in 2022.

We hold a company-wide employee survey – the Zopometer – twice a year. We end this year with an engagement score of 74, a 4% increase on last year. Our D&I score was our highest performing factor at 80, with significant increases in engagement of diverse groups.

In 2018, we signed the Women in Finance Charter, which encourages companies to have at least 33% of senior management roles held by women. As at 31 August 2022, the last reporting window, the number of women in senior management at Zopa (defined as leadership team and their direct reports) had increased significantly to 40% (an increase of 11% from 2021).

The open, honest and transparent dialogue we have with our people is a key feature of working at Zopa. We provide a fair and inclusive working environment that embraces individuality across race, ethnicity, faith, sexual orientation, class, disability and gender. Zopa's community encompasses 45 nationalities, and 34% of our employees identify as ethnically diverse. We design and deliver company-wide communications that speak to all of these diverse Zopians, through direct channels such as our weekly company meetings and regular town halls, as well as our weekly newsletters and huge variety of Slack channels. Employee forums such as our D&I Committee and Ministry of Unusual Business, which provides nominations for monthly employee values awards, provide us with specific counsel and feedback.

Our performance culture centres on regular communication to connect our people's objectives and efforts to our strategic goals, and we've worked hard to maintain this and sustain workplace flexibility, with our culture score remaining high at 79. This illustrates the alignment of our people with our mission and values – putting our customers first, acting honestly and transparently, and collaborating cross-functionally to deliver innovation. We measure success based on the quality of outcomes, and the way in which this performance has paid testament to our values.

Stakeholder	How we engaged	What matters to them	How the Board considers it
Employees	• Employee engagement, measured twice a year • Town hall meetings • Regular company-wide announcements	• Gender pay gap • Fair remuneration • Flexible working • Well-being • Sense of belonging • Working hours • Diversity, inclusion and equality • Learning and development	For example, the Board evaluated results relating to the employee engagement surveys and management's plans for addressing areas requiring improvement. The Board evaluated the results on gender pay gap and diversity, inclusion and equality, and how management plans to close those gaps.

Our customers

At Zopa, we aim to put the customer at the heart of our decision-making. We believe that by focusing on product areas where there are unmet consumer needs, and delivering products which better meet those needs, we can improve the banking experience and, ultimately, the financial health of our customers. As further testament to this, we launched an industry initiative "The Fintech Pledge" in 2022 with the ambition of helping improve the financial resilience of UK consumers by supporting them to take 10 million actions by 2025. We've brought together the fintech industry and supporting partners to help UK consumers to build up their financial resilience and better protect them against the rising cost of living through encouraging actions such as utilities switching, engagement with credit building tools, debt consolidation and saving at higher rates.

Critical to our understanding of our customers is having both regular and varied touchpoints with them through research surveys and interviews, servicing and social media engagement. We also take a quantitative approach by using analytics to better understand customer behaviour and any issues they may face using our products. We also leverage market level data to understand how consumer trends or macroeconomic changes, particularly in light of the cost-of-living crisis, may impact our customers and act accordingly.

Generating such understanding is critical in all customer groups, but we apply a special focus to identifying customers who may be vulnerable or have experienced a change in situation as a result of the current cost-of-living crisis.

We're proud that, as a result, Zopa's blended net promoter score (NPS) is industry leading, and we continue to grow the number of customers who are looking to build a deeper relationship with Zopa.

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

Stakeholder	How we engaged	What matters to them	How the Board considers it
Borrowers	• Regular NPS surveys • Ad-hoc research – both quantitative and qualitative – on new and existing products • Market research and competitive analysis to understand trends outside of our customer base • Monitoring of public forums such as Trustpilot and social media to understand customer sentiment • Via customer service teams – using data and where possible call recordings to share themes that emerge with the rest of the business	• Value (interest rate, fees etc.) • Certainty (of rate and acceptance) • Speed of disbursal specifically for loans • Ease of understanding and managing, and achieve better outcomes for themselves	The Board evaluates whether the company's actions and products will benefit Zopa's customers. This happens through, for example, regular review of management information packs on customer outcomes, complaints review and customer satisfaction. Similarly, the Board received customer call listening updates highlighting the quality of service that our customers received, which reinforced the Board's desire to continue to invest in those services. The Board has also considered the implications of the Financial Conduct Authority's (FCA) new Consumer Duty regulation and how Zopa should respond to it.

Depositors		• Security of their savings (Financial Services Compensation Scheme coverage) • Interest rate • Ease of application and management	The Board assesses whether the Bank's actions and products will benefit Zopa's customers. In 2022, the Board ensured that any changes to the base rates in the UK were passed on to Zopa's savers as much as possible.

Our suppliers

In 2022, the Group used a large number of suppliers to provide services and goods necessary to the effective running of our operations across the various domains of our business. That included business-critical operations that we manage with the help of our suppliers.

The procurement processes and procedures have been updated in line with the Prudential Regulation Authority (PRA) regulations that came into force in March 2022. These inform the selection process for suppliers, who help us to maintain our high standards of service. We have also added sustainability and diversity questions to the supplier onboarding process, as we look to select the most appropriate suppliers who uphold our values.

We have a comprehensive supplier management process to ensure that we take a risk-based approach to managing our suppliers to minimise the risks to us and our customers. Key outsourcing decisions are made by the Board, including the ongoing monitoring of key suppliers.

Stakeholder	How we engaged	What matters to them	How the Board considers it
Suppliers and outsourcing partners	• Run fair selection processes, proportionate to the size and risk of the business objective • Ensure that our suppliers and outsourcing partners meet Zopa's minimum standards by performing due diligence assessments before onboarding and throughout a supplier relationship • Perform proportional ongoing supplier due diligence • Conduct proportional monitoring and oversight of suppliers throughout the business relationship, on both commercial performance and suppliers' continuing adherence to Zopa's agreed standards.	• To understand which services can add value to our business model and operations • To be remunerated fairly and in a timely fashion for their services • To build long-lasting business relationships founded on a deep understanding of each other's strategic priorities • To be satisfied that we follow the rule of law, comply with all relevant regulations and act ethically • Open and honest communication where performance is a concern and improvement is required	• Maintains oversight of supplier performance and risk assessment, including review of regular management reports • Oversees the selection process for new material suppliers to ensure that the chosen supplier is the best choice for Zopa • Ensures appropriate action is taken where performance is a concern and improvements are required. For example, during the year the Board has reviewed some of our material suppliers to ensure that they align with our long-term strategic goals and made changes where appropriate.

Our industry bodies

We're a member of industry bodies including UK Finance and the Finance and Leasing Association (FLA). Through these memberships, we can exchange insights on industry best practice, gain and share understanding of new regulatory initiatives, contribute to joint consultation responses, and gain access to research, statistics and analysis.

Our engagement with the FLA focuses on car finance. With UK Finance we engage on issues related to credit cards, personal banking, financial crime and fraud. The interaction between Zopa and the industry bodies is spread across the business, with subject matter experts from Zopa interacting with various forums and working groups as appropriate. We also have a central contact in Zopa who manages the relationship and can distribute information across Zopa as appropriate. We review membership levels each year to ensure that we have access to all appropriate streams and that we're engaging with the relevant working parties and forums.

Stakeholder	How we engaged	What matters to them	How the Board considers it
Industry bodies	• Attended working party meetings, forums and discussion groups • Contributed to consultation papers and research management information as appropriate • Engaged with additional groups such as the Dedicated Card and Payment Crime Unit and the National Vehicle Crime Intelligence Service through the industry bodies • Attended networks for senior executives • Used publications for horizon scanning	• Creating a single voice for the retail banking sector • Enhancing UK financial services market competitiveness • Facilitating innovation • Supporting customers by promoting safe and transparent banking	The Group and the industry bodies share similar views on the matters important to the sector and its customers. Management provided updates to the Board on key industry trends and developments. This information is then used when the Board makes strategic decisions regarding the Group.

Our regulators

The Group is authorised as a Financial Holding Company by the PRA, and is responsible for compliance with consolidated prudential requirement, as a result of its position as the holding company of Zopa Bank Limited. Members of the Zopa Bank executive team and Board of Directors – which has common membership with the Group executive team and Board of Directors – meet with representatives of the PRA and the FCA, the two UK regulators of the financial services sector, on a periodic basis.

Stakeholder	How we engaged	What matters to them	How the Board considers it
UK regulators	• Held periodic meetings between management, directors and the regulators • Participated in thematic regulatory reviews • Shared copies of our Board papers and reports • Submitted key prudential documents (ICAAP, ILAAP and Recovery Plan) • Requested approvals as part of the Senior Managers and Certification Regime (SMCR) • Requested variation of regulatory permissions to enable expanded product offerings • Escalated matters of interest on an ad hoc basis	• Governance, culture and accountability at Zopa • How we treat our customers and the outcomes we deliver for them • Operational resilience of our business • Whether we're appropriately capitalised and have sufficient liquidity, including during a period of stress	The Board receives updates on the Bank's engagement with the PRA and FCA, and on new regulatory initiatives and publications, at every meeting. A full review of the regulatory environment is also conducted annually as part of the strategy process.

Our communities, environment, and climate change

Our charity partnerships this year have been with In2Science UK, which aims to help young people to secure their future in the STEM sector, while promoting D&I, and With Ukraine, set up by the Embassy of Ukraine to the UK to consolidate international efforts in raising funds to provide humanitarian support to Ukraine and its people.

In 2022, the Group made charitable donations totalling £10,068 (2021: £1,400). The Company made no charitable donations (2021: nil).

Stakeholder	How we engaged	What matters to them	How the Board considers it
Community and environment	• Employee volunteering days • Lunch and learns spanning (include subjects) • Financial health and Borrowing Power tool • Promoting financial inclusiveness/budgeting • How to spot and avoid financial fraud • Mentoring Partnership with Code First Girls	• Equality of opportunity • How our activities impact the environment – greenhouse gas (GHG) emissions Sustainability commitments	During the year, the Board continued to support the Group's environmental, social and governance initiatives. This includes the 2025 FinTech Pledge launched by the Bank and joined by multiple partners from across the UK's fintech community. It aims to drive 10 million consumer actions by 2025 that build up the financial resilience of UK consumers. The Board also considered management's plans with regards to the environment, in particular the recommendations by the Taskforce for Climate-related Financial Disclosures (TCFD).

Climate–Related Financial Disclosures

The UK government has recognised the recommendations of the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (TCFD) as one of the most effective frameworks for companies to analyse, understand and ultimately disclose climate-related financial information. The wide international support for the TCFD recommendations across large businesses, governments, stock exchanges and the investment community led the UK government to adopt them as the basis for implementing climate-related financial disclosures widely across the UK economy. The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 place requirements on certain publicly quoted companies and large private companies like Zopa Group to incorporate TCFD–aligned climate disclosures in their annual reports. The regulations are effective for accounting periods which start on or after 6 April 2022. This means that Zopa Bank will have to include climate-related financial disclosures for the first time in its 2023 annual report.

The project to establish relevant governance, systems, and procedures that underpin climate-related disclosures is already underway, and we are well placed to achieve compliance with the new regulations by the end of 2023. As part of this project, we'll be working with a specialist consultancy to determine the most appropriate methodology for measurement of Zopa's full direct and indirect carbon emissions impact as a first step to setting targets in this area.

Since the publication of the PRA's supervisory statement SS3/19 in April 2019, Zopa Bank, which is the main operating subsidiary within the Group, has already been required to report to the regulator on an annual basis its strategic approach to managing financial risks from climate change. In 2021, in response to the TCFD recommendations, the Board of Directors and the Board Risk Committee (BRC) reaffirmed their responsibilities in the identification, measurement, management and control of climate-related risks and opportunities. The updated risk management framework sets out how the Board delegates the execution of those responsibilities to Board and Management Committees. The Risk Management Committee and the BRC are responsible for assessing and managing climate-related issues and reporting their findings to the Board. Terms of Reference for each of those committees have been updated to reflect those new responsibilities. The Board considers climate-related issues at least annually, but even more frequently if necessary in response to new announcements, regulations, research or other developments.

Streamlined energy and carbon reporting

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

Methodology

The following methodology was used in determining our GHG emissions:

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

Data collected for each scope noted above was subsequently converted into tonnes of carbon dioxide equivalent (tCO2e) using the latest figures provided by the Department for Business, Energy and Industrial Strategy and the Department for Environment, Food and Rural Affairs.

Energy efficiency actions

In 2022, the principal efficiency actions taken by the Group were:

- Undertaking a stay versus go exercise to understand whether we can relocate to a more energy efficient building that has BREEAM 'Excellent' credentials.
- Completing the energy savings opportunity scheme phase 3 audit and evaluating the impact of proposed recommendations.
- Introducing an electric vehicle leasing scheme for Zopians through salary sacrifice.
- Introducing a TerraCycle scheme which allows Zopa to recycle hard-to-recycle materials.
- Broken furniture and equipment recycled in specialist waste recycling centres.
- Office and other supplies of stock delivered in bulk once a week to avoid vans delivering several times.
- Confidential waste bins collected and the waste recycled, with annual certificates presented for how much we have recycled.
- Making fewer printers available in the office to drive positive behavioural changes across Zopians.

Greenhouse Gas Emissions

GHG emissions	**2022**	2021
Scope 1	—	—
Scope 2	**56.0 tCO_2e**	71.0 tCO_2e
	289,341 kWh	334,477 kWh
Scope 3	**1.8 tCO_2e**	0.5 tCO_2e
	7,128 kWh	1,906 kWh
Total	**57.7 tCO_2e**	71.5 tCO_2e
	296,469 kWh	336,383 kWh
Total emissions per full-time employee (intensity ratio)	**98.2 kgs of CO_2e**	158.2 kgs of CO_2e

Risk management

Risk management framework

The risk management framework (RMF) sets out how the Group manages risk and provides oversight of consolidated prudential requirements for the Zopa group of companies in its capacity as the financial holding company of Zopa Bank. The RMF defines types of risk and describes how Zopa sets its appetite for those risks. It also describes how those risks are identified, assessed, mitigated, monitored, and responded to effectively. The rest of this section outlines the key features of the RMF.

In 2022, Zopa Bank was the only operating entity within the Zopa group of companies. Zopa Group's standalone activities are limited to raising external capital, setting Group strategy and signing off consolidated financial statements. Reflecting this, the arrangements Zopa Group has in place to manage risk and provide oversight are substantially the same as those of Zopa Bank, and in most cases are operated by Zopa Bank.

Risk culture and people

Zopa's culture and human capital are key tools in delivering its strategy within the defined risk limits set out in the Risk Appetite Statement (RAS).

Culture

Zopa's culture, as defined by its 'Values', supports strong risk management, by promoting:

- balanced decision-making, where both risk and reward are appropriately considered and reflected;
- a healthy control environment, underpinned by openness, directness and focus.

The direct application of the Values to risk management is summarised in the table below.

VALUES	APPLICATION TO RISK MANAGEMENT
Customer champions	***We focus on customers in everything we do.*** Risks to customers are given particular focus in our risk management activity, reflecting our very low risk appetite for poor customer outcomes.
Fearless choices	***We make decisions that balance risk and reward.*** We take risks where we judge that they'll be rewarded, and we respond pro-actively when risks worsen to focus on sustainable growth over short-term gains. Ownership and accountability are clearly established to promote an environment where employees feel empowered and take responsibility for risk management.
In it together	***We have an open, truth-seeking culture.*** Weaknesses in risk management are shared and learned from, with honest and open communication across lines of defence, and high levels of risk awareness across the business.
Walk the talk	***We challenge each other in search of the best outcomes.*** Differences of opinion on risk assessments and decisions are raised directly and explored. Employees are encouraged to speak up when they have concerns.
Win smarter	***We focus on the things that matter most.*** The most significant risks are prioritised. Reporting is focused and informative. Controls are targeted to allow us to be agile and innovative without compromising risk management. Steps are taken to address the underlying root causes of risks, not their symptoms.

This culture is embedded by the Board and management, who set the tone from the top and establish enabling structures, including:

- for all employees, a hiring and performance appraisal process, and a reward scheme, that rewards behaviour consistent with Zopa's Values;
- for senior employees, a remuneration structure including equity awards, which aligns individual interests with the Group's long-term performance. For the Bank's Executive Committee (ExCo) members designated to perform senior management functions (SMFs), performance assessments and remuneration outcomes are also in part determined by an assessment by the Chief Risk Officer (CRO) of their performance against risk objectives over the year;
- a whistleblowing process that allows any employee to raise concerns directly to the Head of Compliance or the Chair of the Bank and Group Audit Committee (BAC and GAC respectively), Zopa's Whistleblowing Champion;
- a Conflicts of Interest Policy that ensures that any potential conflicts between the interests of employees or directors and the interests of the Group are declared and managed appropriately; and
- an Anti-Bribery and Corruption Policy that limits the risk of employees becoming subject to inappropriate external incentives.

People

Employing and retaining skilled and competent people across all levels is critical for ensuring that Zopa can deliver its strategy and effectively manage risk. The Board entrusts this task to the CEO who delegates the facilitation to the Chief People Officer.

HR plays several important roles in facilitating an effective three lines of defence structure by:

- Designing a remuneration and incentive scheme, which is approved by the Board via the Nomination and Remuneration Committee, based on behaviours that balance risk and reward.
- Managing resource requirements through effective recruitment, objective and retention strategies.
- Developing the training strategy for both compulsory and development requirements, and by supporting first-line SMFs in ensuring their employees are trained and competent to identify and assess risk.

- Supporting Compliance to map responsibilities to job descriptions so that all senior managers falling under the Senior Managers and Certification Regime (SMCR) have clear Statements of Responsibilities and that related risk limits are translated into employees' individual objectives.
- Maintaining records of managers subject to SMCR training and competency requirements.
- Centrally managing the performance appraisal process, to ensure a consistent application, in line with Zopa's Values and risk culture, across the business.

Risk appetite
The Group and Bank Boards set a 'risk appetite' for each risk type by expressing the maximum level of risk of that type that the Group's 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 in the Bank, as described below, with performance monitored against risk appetite. Breaches of triggers or limits are escalated to the Group and Bank Boards via the Bank Board Risk Committee (BRC) and the executive Bank Risk Management Committee (RMC), with remedial actions then agreed.

Three lines of defence
Zopa's risk management processes are operated under a three lines of defence structure:

1. In the **first line**, business areas are responsible for managing risks in their activities, in line with the framework set out in the RMF, to ensure that the business remains within risk appetite.
2. In the **second line**, Zopa's risk function designs the overall approach to risk management, and monitors and conducts assurance on the first line's implementation of it, to ensure that the company remains within risk appetite. It reports regularly to the Board and management on this.
3. In the **third line**, internal audit performs independent periodic checks to evaluate the effectiveness of the first two lines against the standards approved by the Board, and to report on findings to the BAC.

Risk governance
Clear roles and responsibilities around risk management are established. In broad terms:

- The **Board**, with the support of its sub-committees, sets the major, strategic-level elements of Zopa's framework for managing risk, establishes a culture that supports strong risk management, and delegates the execution and embedding of these to management, maintaining appropriate oversight.

- **Management** executes and embeds the risk framework and culture defined by the Board.
    - First-line ExCo members holding SMF roles under the SMCR bear primary responsibility for risk management. This includes the responsibility of all ExCo members to ensure that the RMF is properly implemented in their areas, and of the CEO to ensure the desired culture is embedded.

    - The CRO and Compliance Director / Money Laundering Reporting Officer (MLRO) hold SMF responsibility for overall second line risk management and compliance / financial crime risk respectively. In turn, second line individuals nominated by the CRO act as 'risk oversight owners', being responsible for second line oversight of each individual risk type, including setting policies and conducting monitoring and assurance activities.

    - Management committees provide a forum for the first line and second line to review and discuss risk issues to aid in the discharge of their responsibilities. Committees perform regular review of reporting, challenge first-line SMFs and issue recommendations on various matters to final decision-makers.

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 established 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:** Risks are identified through a range of methods, including: review of management information; bottom-up analysis (e.g. of process design, credit performance and asset and liability characteristics); horizon-scanning; audits and assurance reviews; scenario and stress testing exercises; operational risk event logging; and top-down material risk reviews;
- **Assessment:** Identified risks are assessed and measured through a range of measures, including: quantification of the likelihood and potential impacts of operational risks; modelling and data analysis; and the application of prescribed methods for quantifying capital and liquidity risks;

- **Mitigation**: Action is taken to reduce identified risks to within appetite. This includes: the implementation of policy standards and controls to reduce the likelihood and severity of risk events; credit acceptance criteria to limit credit risk; decision-making authorities around new risk exposures; limits on financial exposures; and incident and crisis management processes.
- **Monitoring and reporting**: The output of Zopa's identification, assessment and mitigation activities is regularly monitored by responsible business areas, and reported to senior individuals and committees at management and Board level, enabling appropriate visibility, discussion and challenge. This includes: monitoring of risk appetite, other MI, and forecast and actual performance data; and regular reporting on these to the relevant management and Board committees.
- **Response and learning**: When risks crystalise, or when Zopa's residual risk exposure increases, this is escalated to the appropriate individuals and committees and an appropriate response is agreed. For example: 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. It forms part of the 'Identification' and 'Assessment' headings under the risk management approach, 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) and the Recovery Plan.

Principal risks

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

Credit risk

Definition

Credit risk is the risk that borrowers or other counterparties default on their loans or obligations.

Credit risk includes the following sub-types:

- Counterparty credit risk: The risk that counterparties to whom Zopa has non-loan exposures default.
- Concentration risk: The risk that Zopa's credit losses are exacerbated by large exposures to individuals or a high correlation between individual borrowers.

Risk profile

The material credit risk that Zopa faces is:

- Consumer borrowers defaulting on their unsecured personal loans, secured car loans or credit card loans.

Other less material risks include:

- Default of counterparties whose default results in a financial loss to Zopa.
- Assets which Zopa holds as collateral for car finance loans depreciate in value by more than expected.

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.

Mitigation

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, which operate under the credit and responsible lending policy. Such activities include gathering data (from customers, credit reference agencies and through open banking), applying universal exclusion rules, verifying income and expenditure, applying cut-offs, limits and pricing using multivariate scorecards, and conducting further manual checks as necessary.

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

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

Assessment and measurement

The Group's accounting policy for measurement of expected credit losses can be found in note 32.

The Group uses the standardised approach in determining the level of capital to be held in relation to credit risk for regulatory purposes. Under that approach, the Group must set aside total capital equal to 8% of its total risk-weighted assets to cover its Pillar 1 capital requirements. As part of the ICAAP, the Group also performs an assessment of additional Pillar 2 capital that should be held to protect against potential credit losses. This includes the use of external benchmarks on retail credit risk weights and application of the quasi-IRB methodology.

The Group operates proprietary models to project the probability of default, loss given default, and net present value of loans, at origination and throughout their lifecycle.

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

Monitoring and reporting

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

Refer to note 32 to the financial statements for more information on the risk management of financial instruments held by the Group.

Capital risk

Definition

Capital risk is the risk of having insufficient capital to support the business strategy.

Risk profile

The material capital risk that the Group faces is:

- Unexpected credit or operational losses lead to capital resources being below required levels.

Other less material, risks include:

- Capital requirements exceed expectations.
- Unexpected failure of the Group to receive a previously committed capital injection.

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.

Mitigation

The Group's capital risk is managed in line with its internal standards based on policies, limits, triggers, continuous monitoring and stress testing.

Through the ICAAP, material risks to the Group's capital position are analysed, in the light of the Group's strategy, operations and risk profile. The ICAAP includes stress testing, in which stress scenarios are used to develop an informed understanding and appreciation of the Group's capacity and resilience to withstand shocks of varying severities. Management actions are also identified which could be taken to mitigate the impact of the stresses on the Group's capital position. The ICAAP is treated as a live document and used to inform ongoing capital management. Throughout 2022, the Group continued to maintain capital ratios within the Group's risk appetite and regulatory requirements.

A key mitigation that the Group uses to manage capital risk is the efficient deployment of its existing capital resources. This ensures that risk-adjusted returns are maximised while remaining above regulatory requirements.

Assessment and measurement

The Group's subject to a total capital requirement (TCR, which comprises Pillar 1 and Pillar 2A) and to capital buffer requirements which help ensure that the TCR can be met at all times. These requirements are quantified as part of the ICAAP, based on prescribed regulatory methodologies and best-practice industry approaches. The Prudential Regulation Authority (PRA) sets the Group's final TCR and capital buffers based on its capital supervisory review and evaluation process, which includes review of the Group ICAAP.

Throughout the financial year, the Group complied with the capital requirements in force as set out by the PRA. Further details can be found in note 32 to the financial statements and in the Group's published Pillar 3 disclosures report.

Monitoring and reporting

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 Board, as well as to the Bank's Asset and Liability Committee (ALCO), RMC and BRC, on a regular basis. T

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

Liquidity risk

Definition

Liquidity risk is the risk of being unable to meet obligations as they fall due

Risk profile

The material liquidity risk that the Group faces is:

- Easy access deposit outflows exceed expectations

Other, less material, risks include:

- Credit card outflows exceed expectations.
- Loan prepayments fall short of expectations.
- Loan delinquencies exceed expectations.
- Lower resave rates than expected for fixed-term deposits as they reach maturity
- Early fixed-term deposit withdrawals exceed expectations.
- Outflows to corporate suppliers exceed expectations.

The Group's liquidity profile can be found in note 32.

Appetite

The Group 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.

Mitigation

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

Assessment and measurement

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

Monitoring and reporting

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

Market and interest rate risk

Definition

Market and interest rate risk is the risk of loss due to changes in the market price of financial instruments, or adverse movements in interest rates that affect banking book positions.

Market and interest rate risk includes the following sub-types:

- Market risk: The risk of a financial loss due to a fall in market value of financial assets of increase in financial liabilities (i.e. warrants) that Zopa holds
- Interest rate risk in the banking book: The risk of net interest expense owing to a change in market interest rates which affects Zopa's assets and liabilities to different extents.

Risk profile

The Group doesn't have a trading book, and as a result, doesn't carry out proprietary trading or hold any positions in assets or equity, except for high-quality liquid assets. The Group has no exposure to LIBOR.

In 2022, the Group maintained the vast majority of its liquid asset buffer in the Reserves Account with the Bank of England and only a small portion of it in a Money Market Fund, which falls outside of the scope of market risk.

The material market and interest rate risk that the Group faces is:

- Large, unexpected changes in interest rates or interest rate bases adversely impact net interest margin.

Other, less material, risks include:

- Significant falls in the value of any financial instruments held in the liquid asset buffer result in losses being realised when they're sold as part of the liquidity management strategy.

The Group's repricing gap and sensitivity to interest yield curve can be found in note 32.

Appetite

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

Mitigation

Hedging activity is performed to reduce residual market and interest rate risk exposure.

The Group has implemented hedge accounting in 2022. Hedge effectiveness has been monitored and achieved since, in line with requirements under the relevant accounting standards. This acts as a protective measure against risks from hedge accounting operations.

Specifically, during 2022, Zopa started booking interest rate swaps for hedging purposes, with a total nominal of £315m at the end of the year.

Assessment and measurement

Market and interest rate risk are quantified using prescribed regulatory and industry best-practice methodologies, including through the application of regulatory stress scenarios for interest rate risk in the banking book. Customer behaviour, in line with guidance from the regulator, is taken into account when calculating this risk.

Monitoring and reporting

Levels of interest rate risk in the banking book (IRRBB) are monitored at Bank level. Risk appetite and other key aspects of management information are monitored by the Bank's ALCO, the RMC, the BRC and the Bank and Group Boards at their regular meetings at Bank level. The Bank carries out monthly supervisory outlier tests and reports the relevant results to ALCO.

Conduct risk

Definition

Conduct risk is the risk that the Group'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 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.

Appetite

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

Conduct risk appetite is defined through risk metrics on customer outcomes and forward-looking conduct risks.

Like operational risk under the RMF, conduct risk is typically not a risk directly taken in return for an expected reward. Rather, it 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.

Mitigation

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

- The Board sets culture, values, behaviours and standards for the Group. The culture is designed to promote good customer outcomes.
- The Board promotes the adoption of the required 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 and embedding the culture set by the Board.

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

Assessment and measurement

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

Monitoring and reporting

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

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

Operational risk

Definition

Operational risk is the risk of loss 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 the following subtypes:

Subtype	**Description**
Employment practices and workplace safety	The risk of breaches of employee-related legal or regulatory obligations
Resourcing	The risk of Zopa failing to retain adequate levels of expertise and employees
External fraud	The risk to Zopa's or customers' assets from external theft or fraud
Internal fraud	The risk of employees intentionally defrauding Zopa or customers' accounts
Damage to physical assets	The risk of damage to or loss of Zopa's physical assets
Business continuity	The risk of disruption to critical business processes due to a failure of the business to respond appropriately to adverse events
Technology	The risk of disruption to Zopa's business processes due to failure or inadequacy of technology
Information security and cyber	The risk of unauthorised access to, damage to or unavailability of data or services due to malicious internal or external activity
Data management	The risk that data is improperly processed or stored resulting in regulatory breaches errors, data corruption and/or data loss
Conduct	The risk of Zopa's products or customer service interactions resulting in poor customer outcomes
Legal	The risk of unenforceability, of legal claim or of a breach of statutory obligations (excluding data, financial crime and employment law)
Financial crime	The risk of breach of Zopa's statutory and regulatory financial crime obligations
Regulatory compliance	The risk of breach of Zopa's financial regulatory obligations (excluding those relating to financial crime and employees)
Finance processes	The risk of errors in executing key financial processes (including accounting transactions, tax and payment approvals)
Regulatory reporting	The risk of regulatory returns being inaccurate, incomplete or not submitted in line with regulatory requirements or timeframes
Model	The risk of models that are flawed or misused
Intermediary	The risk of any operational risk events originating from intermediaries
Supplier and outsourcing	The risk of any operational risk events originating from suppliers or outsourcing providers

Risk profile

The material operational risks that the Group faces are:

- Fraudulent personal loan or credit card applications.
- Cyberattack resulting in service outage or data breach.
- Issues at a material outsourcer or intermediary resulting in service outages, data breaches, regulatory breaches or customer detriment.

- Internal technology failure causing service outages or data breaches.
- Data management failure, resulting in non-compliant processing or data integrity issues.
- Regulatory reporting failures.
- Credit model errors leading to loans written outside policy.
- Product design failures resulting in poor customer outcomes.
- Pre- or post-sale customer servicing failures, including incorrect affordability assessments or failure to provide statutory notices, resulting in poor customer outcomes, unenforceable loans or regulatory breaches.
- Financial crime breaches.
- Internal fraud events in areas processing money movements or personally identifiable information, resulting in financial loss or data breach.

Other, less material, risks include:

- Back-end payment processing errors
- Lack of appropriate resourcing leading to risk events
- Zopa's employees are treated unfairly or suffer injury requiring remediation
- Zopa's physical assets are damaged

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

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

Key controls include:

- A suite of automated detective and preventative controls to enforce policy standards around key risks and detect any breaches or control failures.
- The maintenance and regular testing of business continuity and disaster recovery plans.
- Quality control on operational processes.
- Change management and quality assurance processes.
- Expert reviews and sign-offs of important business changes.
- Maintenance of a comprehensive log of regulatory requirements.

A risk events management process is also in place, under which risks that materialise are registered, communicated to relevant staff, contained, remediated and closed with a root-cause analysis which identifies any steps that must be taken to avoid similar events in future.

Assessment and measurement
Operational risk is measured in terms of potential financial losses, impact on customers and regulatory breaches. All risks identified under RCSAs must be quantified in terms of the severity and likelihood of these adverse outcomes. In terms of the capital required to protect against severe operational risk events, as at 31 December 2022, the operational risk requirement for the Group under Pillar 1 was calculated using the basic indicator approach, whereby a 15% multiplier is applied to the historical average net interest and fee income of the last three years based on audited financial statements. Given that the Group is in the early stages of full operation, there are no historic figures available for the last three years, hence the Pillar 1 capital requirement for operational risk has been calculated using the forecast operating income for the next three years. Under that approach, the Pillar 1 operational risk requirement was £13m as at 31 December 2022.

Monitoring and reporting
Regular reporting on residual operational risk assessments, control effectiveness and operational risk appetite metrics is produced by the first line, reviewed by the second line and reviewed by the Bank RMC, BRC and Board, with summary risk appetite reporting on this to the Group Board.

Strategic risk

Definition

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

Strategic risk includes reputational risk which is the risk of a negative impact on stakeholder perceptions of Zopa which impacts its ability to grow or maintain its business.

Risk profile

The material strategic risks that the Group faces are:

- Inability to grow business because of external competitive conditions.
- Reputational damage making it difficult to attract or retain customers.
- Inability to raise funding for growth, through deposits or capital injections.
- Inability to attract and retain the talented employees required to deliver its business strategy.

Appetite

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

Mitigation

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

Assessment and measurement

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

Monitoring and reporting

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

Uncertainties and emerging risks

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

Theme	Risk	Mitigation
UK macroeconomic performance	Economic conditions are a major driver of credit performance, potential capital losses and Zopa Group's ability to grow the business. Economic conditions have deteriorated significantly over 2022. Inflation has increased, driven by Russia's invasion of Ukraine and supply chain pressures. Interest rates are likely to be significantly higher than previously expected, in response to the inflation outlook and concerns over the UK's fiscal position. Customers are likely to be shielded from energy price increases somewhat by temporary government support but exposed to rises from April 2023 onwards, and to the impact of higher interest rates on mortgage repayments.	• Continued monitoring, forecasting and stress testing are undertaken to guide underwriting and impairment to manage the resulting credit and capital risks. • Credit applications are assessed in light of potential stress scenarios. • Credit tightening, provision builds and business planning have been undertaken over 2022 in response to the worsening environment. • Monitoring enhancements have been made to enable worsening trends to be investigated, including providing more insight into the impact of rising mortgage rates on borrowers.
Funding conditions	A higher and increasing interest rate environment exposes Zopa to liquidity and strategic risks when competing for funding. Interest rates in the fixed-term and easy access savings market are increasing significantly, driven by the increased bank rate environment and competitive market dynamics.	• Close monitoring of market trends is conducted. • Funding diversification options are considered as part of strategic planning.

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' under the PRA and FCA operational resilience requirements to inform risk management practices.

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 car finance 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 unsecured personal loans.
	  ◦ 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 car finance 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 to be low, given Zopa's product set and target customers, ongoing monitoring, forecasting and stress testing is undertaken to ensure that the Group is resilient to those risks, particularly in terms of credit outcomes and operational stability.

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

Jaidev Janardana
Chief Executive Officer

19 May 2023

DIRECTORS' REPORT

The Directors of Zopa Group Limited (henceforth 'the Group' or 'the company') present their Annual Report together with the audited financial statements for the year ended 31 December 2022 (together the 'Annual Report and Accounts').

The Directors are required under Section 414 of the Companies Act 2006 to present a strategic report in the Annual Report and Accounts. The information can be found on pages 3 to 22. As noted in the table below, the Group has chosen, in accordance with Section 414C(11) of the Companies Act 2006, to include certain matters in its Strategic Report that would otherwise be disclosed in this Directors' report.

Subject	Pages
Business review and future developments	3 to 4
Relationship with shareholders	5 to 6
Employees and employees with disabilities	6 to 7
Relationship with suppliers	8 to 8
Charitable donations	10 to 10
Environment and greenhouse gas emissions	10 to 11
Risk management	12 to 22

Appointment and resignations of Directors

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

The following directors held office in 2022 and until the date of publication of this Annual Report and Accounts:

Director	Appointed	Resigned
Gordon McCallum (Chair)		
Andrew Cassin	09.02.2022	
Christopher Jones		
Gaenor Bagley	12.01.2022	
Giles Andrews		
Jaidev Janardana		
Michael Woodburn		
Nicholas Aspinall		
Paul Cutter	12.01.2022	
Peter Herbert		
Richard Goulding		
Stephen Hulme	12.01.2022	

Going concern

The consolidated and parent company financial statements have been prepared on a going concern basis, as the directors are satisfied that the Group and its parent company will have the resources to continue business for a period of at least twelve months from the date of approval of these financial statements. In reaching this assessment, the directors have considered projections for the Group's capital and funding position, consolidated statement of financial position (balance sheet), profitability, cash flows, as well as other principal risks disclosed in the strategic report. The Group's capital and liquidity plans, including alternative scenarios such as inflation remaining at similar or higher levels for longer than current expectations, and further increases to interest rates, have been reviewed by the directors. When preparing the forecasts, the Group has reflected the economic repercussions of the war in Ukraine and the risks of further increases to energy prices. Directors also considered the key assumptions and uncertainties that feed into these plans alongside management actions and mitigants that are available. Under all scenarios considered the directors believe the Group to remain a going concern on the basis that it maintains sufficient resources to be able to continue to operate for the period of at least 12 months from the date of authorisation of these consolidated financial statements.

Post balance sheet events

The following material post balance sheet events have taken place since the balance sheet date:

On 31 January 2023, the Group raised £75 million by issuing ordinary shares and warrants to existing shareholders. The funding will be used to meet the capital requirements of the Group's growing balance sheet. On the same day, the Group injected £50m into Zopa Bank Limited as an equity investment.

On 30 March 2023, Zopa Bank Limited acquired a £41 million loan portfolio consisting of performing unsecured personal loans. These loans were purchased from an institutional investor in the legacy peer-to-peer platform operated previously by Zopa Limited (now by Plata Finance Limited). The price paid for the portfolio was £38 million.

In 2022, the Group entered discussions around a potential acquisition of Rematch Credit Limited's assets, a point-of-sale lender in the UK. The first stage of this transaction was completed on 14 February 2023, with Zopa Group purchasing DivideBuy's technology platform for a net cash consideration of £1.1 million. The second stage of the transaction, which includes transfer of people as well as novation of key suppliers and merchants completed on 1 April 2023 for an additional net consideration of £2.2 million.

Financial risk management objectives and policies
Information regarding financial risk management objectives and policies in relation to the use of financial instruments can be found in Risk Management on pages 59 to 72 and in note 33 to the consolidated financial statements.

Dividends
The Directors are not recommending any dividend in respect of the year ended 31 December 2022 (2021: £nil).

Political donations
The Group made no political donations in 2022 (2021: £nil).

Directors' remuneration
The Group adheres to the requirements of the Remuneration Code as defined by the Financial Conduct Authority (FCA), the UK regulator. The non-executive directors do not receive variable remuneration. Information on the company's Remuneration Code is set out in the Pillar 3 disclosures, which are available on our website[1]. Details of the directors' remuneration are set out in Note 7 to the financial statements.

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

Statement of directors' responsibilities in respect of the financial statements
The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with UK-adopted international accounting standards.

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

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

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

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

Directors' confirmations
In the case of each director in office at the date the directors' report is approved:

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

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

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

Jaidev Janardana
Chief Executive Officer
19 May 2023

[1] Annual reports and Pillar 3 reports are available on our website at https://www.zopa.com/investor-information

Independent auditors' report to the members of Zopa Group Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2022 and of the group's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the consolidated and company statement of financial position as at 31 December 2022; the consolidated statement of comprehensive income, the consolidated and company statement of cash flows and the consolidated and company statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

- Discussions with management, and those charged with governance, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters identified from complaints log which could suggest non-compliance with laws and regulations or internal fraud;
- Reading correspondence with the FCA and the PRA;
- Reading minutes of the board and audit committee to identify any matters of audit relevance;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular those related to the allowance for expected credit losses; and
- identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management.

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Nick Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
19 May 2023

Consolidated statement of comprehensive income

For the year ended 31 December

	Notes	**2022** £000	2021 (restated*) £000
Interest income		**200,056**	61,186
Interest expense		**(33,030)**	(5,438)
Net interest income	2	**167,026**	55,748
Fee and commission income		**8,577**	14,842
Fee and commission expense		**(9,334)**	(7,839)
Net fee and commission (loss)/ income	3	**(757)**	7,003
Net losses on disposal of property, plant and equipment	18 & 19	**—**	(5)
Net losses on derecognition of financial assets measured at amortised cost	4	**(21,052)**	(2,215)
Changes in fair value of financial instruments measured at FVTPL	14	**8,520**	(6,743)
Total operating income		**153,737**	53,788
Operating expenses	5	**(76,165)**	(60,609)
Net operating income/ (loss)		**77,572**	(6,821)
Change in expected credit losses and other credit impairment charges	9	**(100,618)**	(41,590)
Change in provisions for other liabilities and charges	23	**(246)**	99
Loss on disposal of subsidiary	1	**(491)**	—
Loss before tax		**(23,783)**	(48,312)
Taxation	10	**10**	97
Loss after tax		**(23,773)**	(48,215)
Total comprehensive loss		**(23,773)**	(48,215)
Attributable to:			
Equity holders		**(23,773)**	(48,215)

*The comparative information is restated due to prior year adjustments. Refer to note 35 for further details. The restatement relates to historic share warrants that were incorrectly classified as equity rather than derivative liabilities. Refer to note 35 for further details.

The accompanying accounting policies and notes on pages 32 to 73 are an integral part of the financial statements.

The losses of the Group are derived from continuing operations in the current and prior periods. No other comprehensive income items were recorded during the year (2021: nil).

Consolidated statement of financial position

As at 31 December

	Notes	**2022** £000	2021 Restated* £000	1 January 2021 Restated* £000
Assets				
Cash and cash equivalents:				
– Central banks	12	**1,397,062**	191,148	35,024
– Other banks	12	**23,732**	37,245	28,368
– Debt securities	12	**13,386**	16,244	12,244
Financial assets at fair value through profit or loss:				
– Derivative financial instruments	14	**8,346**	11	—
Financial assets at amortised cost:				
– Loans and advances to customers	15	**1,937,964**	1,173,035	225,445
Prepayments and accrued income	16	**5,294**	2,963	2,842
Other assets	17	**30,020**	6,294	4,640
Property, plant and equipment	19	**789**	1,054	1,429
Right-of-use assets	18	**1,280**	2,828	5,613
Intangible assets	20	**9,468**	9,346	11,106
Total assets		**3,427,341**	1,440,168	326,711
Liabilities				
Financial liabilities at fair value through profit or loss:				
– Derivative financial instruments	14	**4,532**	6,205	5,117
Financial liabilities at amortised cost:				
– Amounts due to banks	21	**180,074**	175,175	162
– Deposits by customers	22	**2,922,845**	968,000	177,823
Accruals		**10,841**	16,123	4,717
Provisions	23	**1,222**	1,304	1,557
Other liabilities	24	**7,086**	5,752	2,316
Lease liabilities	18	**1,067**	3,302	5,965
Total liabilities		**3,127,667**	1,175,861	197,657
Equity				
Called–up share capital	25	**1,479**	1,336	912
Share premium	25	**420,761**	363,132	189,144
Other reserves	26	**64,921**	64,569	62,305
Retained losses		**(187,487)**	(164,730)	(123,307)
Total equity		**299,674**	264,307	129,054
Total equity and liabilities		**3,427,341**	1,440,168	326,711

*The comparative information is restated due to prior year adjustments. Refer to note 35 for further details.

The accompanying accounting policies and notes on pages 32 to 73 are an integral part of the financial statements.

The financial statements were approved by the Board of Directors on 19 May 2023 and signed on its behalf by:

Jaidev Janardana
Chief Executive Officer

Steve Hulme
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 December

	Notes	Called-up share capital £000	Share premium £000	Other reserves[1] £000	Retained losses £000	Total equity £000
Balance as at 1 January 2021		912	195,604	62,305	(124,747)	134,074
Prior period adjustments	35	—	(6,460)	—	1,440	(5,020)
Restated total equity as at 1 January 2021		912	189,144	62,305	(123,307)	129,054
Total comprehensive loss		—	—	—	(48,215)	(48,215)
Shares issued	25	432	173,988	—	—	174,420
Partial exercise of warrants	35	—	—	—	6,792	6,792
Net share option movements	27	—	—	2,267	—	2,267
Other movements	25 & 26	(8)	—	(3)	—	(11)
Balance as at 31 December 2021 (restated*)		1,336	363,132	64,569	(164,730)	264,307
Balance as at 1 January 2022 (restated*)		**1,336**	**363,132**	**64,569**	**(164,730)**	**264,307**
Total comprehensive loss		**—**	**—**	**—**	**(23,773)**	**(23,773)**
Shares issued	25	**143**	**57,629**	**—**	**—**	**57,772**
Net share option movements	27	**—**	**—**	**1,341**	**—**	**1,341**
Other movements	26	**—**	**—**	**(989)**	**1,016**	**27**
Balance as at 31 December 2022		**1,479**	**420,761**	**64,921**	**(187,487)**	**299,674**

1. Other reserves consist of a share-based payments reserve, currency revaluation reserve, capital redemption reserve, treasury shares and merger reserve.

*The comparative information is restated due to prior year adjustments. Refer to note 35 for further details.

The accompanying accounting policies and notes on pages 32 to 73 are an integral part of the financial statements.

Consolidated statement of cash flows

As at 31 December

	Notes	**2022** **£000**	2021 Restated* £000
Reconciliation of loss before tax to net cash flows from operating activities:			
Loss before tax		**(23,783)**	(48,312)
Adjustments for:			
– Non-cash items	13	**91,284**	57,196
– Changes in operating assets and liabilities	13	**1,073,350**	(185,936)
Net cash generated by/ (used in) operating activities		**1,140,851**	(177,052)
Cash flows from investing activities			
Purchase of property, plant and equipment	19	**(610)**	(520)
Purchase and development of intangible assets	20	**(3,949)**	(2,035)
Proceeds from disposal of a subsidiary, net of costs to sell	1	**1,567**	—
Disposal of right-of-use asset		**—**	(401)
Net cash used in investing activities		**(2,992)**	(2,956)
Cash flows from financing activities			
Shares issued	25	**60,172**	178,972
Issuance of warrants	28	**—**	1,264
Cost of shares issued	25	**(2,400)**	(4,552)
Change in TFSME and ILTR borrowings	21	**(3,791)**	175,013
Principal elements of lease payments	18	**(2,297)**	(1,688)
Net cash generated from financing activities		**51,684**	349,009
Net increase in cash and cash equivalents		**1,189,543**	169,001
Cash and cash equivalents at start of year	12	**244,637**	75,636
Cash and cash equivalents at end of year	12	**1,434,180**	244,637
Loss before tax includes:			
Interest received		**187,517**	52,814
Interest paid		**(29,178)**	(4,992)

*The comparative information is restated due to prior year adjustments. Refer to note 35 for further details.

The accompanying accounting policies and notes on pages 32 to 73 are an integral part of the financial statements.

Notes to the consolidated financial statements

1. Basis of preparation and significant accounting policies

Overview

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

1.1 General information

Zopa Group Limited ('the Company') is the financial holding company of Zopa Group ('the Group'). Zopa Group provides retail banking services in the UK. The Company is a private limited company limited by shares incorporated in England & Wales and domiciled in the United Kingdom under the Companies Act 2006 (registered number 10624955). The registered office is at First Floor Cottons Centre, 47–49 Tooley Street, London, England, SE1 2QG. The Company's standalone financial statements and notes are included from page 74 onwards.

1.2 Basis of preparation and consolidation

1.2.1 Basis of preparation

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

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

1.2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2022. Control is achieved where the Company (i) has power over the investee; (ii) is exposed, or has rights, to variable returns from its involvement with the investee; and (iii) has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income statement from the date the Company gains control until the date when the Company ceases to control the subsidiary. Inter-company transactions, balances and unrealised gains on transactions between Zopa Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

When the Company loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities are disposed of. The fair value of any investment retained in a former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 or, when applicable, the costs on initial recognition of an investment in an associate or joint venture.

The relationship between the Company and its subsidiaries is one of principal, with 100% ownership. There are no restrictions in place with regard to the ability of the Company to access assets and settle liabilities of the Group, or transfer cash or other assets to and from the Company, although the Board approval is required.

Subsidiaries of the Company are as follows:

	Proportion of voting rights and ordinary share capital held as of 31 December		Principal place of		
Subsidiary name	2022	2021	business or incorporation	Year of incorporation	Principal activities
Zopa Bank Limited	100%	100%	UK	2017	Retail banking
Zopa Limited	—	100%	UK	2004	Peer-to-peer lending
P2PS Cars Limited	Dissolved	Dissolved	UK	2015	N/A

The Company has no investments in associates, or joint ventures.

Deconsolidation of a subsidiary

On 10 February 2022, the Group sold Zopa Limited to Plata Holdings UK Limited, an affiliate of IAG Silverstripe Partners LLC, for a consideration of £3.1m. As of 31 December 2021, Zopa Limited was a 100% owned subsidiary of Zopa Group Limited and was consolidated into the Group consolidated financial statements. Due to the loss of control arising from the sale of the subsidiary, Zopa Limited was deconsolidated from the Group immediately after the sale. The financial performance of Zopa Limited in the current period (prior to the sale) was not presented as a discontinued operation as the amounts were immaterial.

Details of the sale of subsidiary

	2022 **£000**
Consideration received or receivable	
Cash	**1,751**
Fair value of contingent consideration	**1,365**
Total disposal consideration	**3,116**
Carrying amount of net assets sold	**(3,423)**
Costs to sell	**(184)**
Loss on sale before income tax	**(491)**
Income tax expense on loss	**—**
Loss on sale after income tax	**(491)**

1.3 Going concern

The directors consider that it is appropriate to continue to adopt the going concern basis of accounting in preparing the consolidated financial statements. In reaching this assessment, the directors have considered projections for the Group's capital and funding position, consolidated statement of financial position (balance sheet), profitability, cash flows, as well as other principal risks disclosed in the strategic report. The Group's capital and liquidity plans, including alternative scenarios such as inflation remaining at similar or higher levels for longer than current expectations, and further increases to interest rates, have been reviewed by the directors. When preparing the forecasts, the Group has reflected the economic repercussions of the war in Ukraine and the risks of further increases to energy prices. Directors also considered the key assumptions and uncertainties that feed into these plans alongside management actions and mitigants that are available. Under all scenarios considered the directors believe the Group to remain a going concern on the basis that it maintains sufficient resources to be able to continue to operate for the period of at least 12 months from the date of authorisation of these consolidated financial statements.

1.4 Functional and presentational currency

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

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

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

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

1.5 Segmental reporting

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

1.6 Consolidated cash flows statement

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

1.7 Critical judgements and accounting estimates

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

The areas noted in the table below have a higher degree of complexity, judgements or the estimates have a significant risk of a material adjustment to the carrying amounts within the next financial year. No significant judgements or other significant estimates have been made in the process of applying the accounting policies. Management believe that the underlying assumptions applied as at 31 December 2022 are appropriate and that the consolidated financial statements therefore present the consolidated financial position and results of the Group fairly.

Critical accounting judgment and estimates		Note
Measurement of allowance for expected credit loss	• Criteria for significant increase in credit risk	33
	• Use of post-model adjustments on the potential impact of the rising mortgage rates	33
	• The impact of macroeconomic scenarios and weightings on the probability of default	33
Classification and measurement of warrants	• Debt/equity classification	28
	• Inputs to the valuation model	31
Measurement of fair value of loans acquired from retail investors in Zopa Limited's peer-to-peer lending platform	• Discount rate	32

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

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

The Group has applied hedge accounting (IFRS 9 with scope exception) from 1 September 2022. Refer to Note 14 for the accounting policy.

The Group has not provided disclosures in respect of new and amended standards and interpretations that became effective for 2022, as none of these had an impact on the Group's consolidated financial statements.

The IASB has issued a number of other minor amendments to IFRSs that are not mandatory for the current reporting year and have not been early adopted. None of these amendments are expected to have a material impact on the Group.

2. Net interest income

Accounting policy

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

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

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

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

	Note	**2022** **£000**	2021 £000
Interest income			
Cash and balances held at central banks		**11,941**	124
Cash and balances held at other banks		**60**	(2)
Debt securities		**—**	1
Loans and advances to customers		**188,055**	61,063
Total interest income		**200,056**	61,186
Interest expense			
Deposits from customers		**(30,208)**	(5,167)
Amounts due to other banks		**(2,760)**	(93)
Lease liabilities	18	**(62)**	(178)
Total interest expense		**(33,030)**	(5,438)
Net interest income		**167,026**	55,748

3. Net fee and commission income

Accounting policy

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

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

Fee and commission income is comprised of fees charged to credit card customers, referral commission and servicing fees. Servicing fees include both customer fees on the P2P portfolio prior to the sale of Zopa Limited, and fees for servicing the Zopa Limited P2P portfolio after the sale of the company by Zopa Group Limited on 10 February 2022. Fee and commission expense primarily consists of transaction processing and customer eligibility assessment fees.

	2022	2021
	£000	£000
Fee and commission income		
Credit cards	**6,383**	2,168
Referral commission	**401**	264
Servicing fees	**1,793**	12,410
Total fee and commission income	**8,577**	14,842
Fee and commission expense	**(9,334)**	(7,839)
Net fee and commission income	**(757)**	7,003

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

Accounting policy

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

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

	2022	2021
	£000	£000
Loss on sale of credit impaired loans	**19,257**	1,859
Loan write-offs due to customer fraud	**1,795**	356
Net losses on derecognition of financial assets measured at amortised cost	**21,052**	2,215

5. Operating expenses

		2022	2021
	Notes	**£000**	£000
People costs	6	**49,106**	36,658
Contractors		**1,325**	511
Less: capitalised development costs recognised as intangible additions	20	**(3,667)**	(2,035)
Legal and professional		**7,532**	7,088
Depreciation of PPE and right-of-use assets	18 & 19	**2,399**	2,725
Amortisation of intangible assets	20	**3,827**	3,713
Impairment of PPE and intangible assets	19 & 20	**24**	82
Information technology		**7,958**	5,675
Loss on acquisition of loan portfolio	32	**651**	1,341
Other		**7,010**	4,851
Total operating expenses		**76,165**	60,609

Coronavirus Job Retention Scheme grants of £nil (2021: £18k) are included within other expenses. There are no unfulfilled conditions or other contingencies attached to these grants. The Group did not benefit directly from any other forms of government assistance. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

6. Wages and salaries

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

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

The Group operates a defined contribution pension plan. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. It has no further payment obligations once the contributions have been paid.

The below expenses are presented gross of staff costs which were capitalised as part of the Group's intangible assets. See note 19 for accounting policies on intangible asset capitalisation.

The accounting policies on share-based payments are included in note 27.

	2022	2021
	£000	£000
Employee benefits	**41,082**	29,745
Social security costs	**5,144**	3,544
Defined contribution pension expenses	**1,539**	1,102
Equity-settled share-based payments	**1,341**	2,267
Total people costs	**49,106**	36,658

The average number of employees (including directors) of the Group during the year was made up as follows:

	2022	2021
	Number	Number
Loan operations and servicing	**336**	282
Administration	**264**	182
Total staff	**600**	464

7. Directors' remuneration

This table sets out emoluments and pension contribution in respect of 2022.

	2022	2021
	£000	£000
Directors' emoluments	**2,078**	1,972
Pension contributions	**9**	48
Total directors' remuneration	**2,087**	2,020

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

	2022	2021
	£000	£000
Emoluments	**951**	666
Pension contributions	**9**	38
Total highest paid director remuneration	**960**	704

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

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

One executive director exercised 100,000 options during 2022, which is considered in the share-based payments figure included in Note 27. There were no share-based options exercised by directors in 2021.

8. Independent auditors' fees
Services provided by the Group's auditors are presented excluding VAT.

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

	2022	2021
	£000	£000
Fees payable for the audit of the Group's consolidated financial statements	**193**	200
Fees payable for the audit of the subsidiaries' financial statements	**800**	660
Fees payable for audit related assurance services	—	191
Fees payable for other assurance services	**1**	43
Total fees payable to auditors	**994**	1,094

Auditors' remuneration to PricewaterhouseCoopers LLP for 2022 in relation to the statutory audit includes £38k (2021: £48k) relating to the Group and £113k (2021: £99k) relating to subsidiaries which pertains to additional fees for 2021 (2020) that were paid during the year.

9. Change in expected credit losses and other credit impairment charges
Accounting policy
The accounting policies on expected credit losses are included in note 33. Write-offs occur when either part, or all, of the outstanding debt is considered irrecoverable and all viable options to recover the debt have been exhausted. Any amount received after the loss allowance has been raised or debt has been written-off, is recorded as a recovery and reflected as a reduction in the expected credit loss reflected in the income statement.

		2022	2021
	Notes	**£000**	£000
ECL movements and write offs on loans and advances to customers	33	**100,685**	41,408
Recoveries of loans and advances, net of collection costs		**(216)**	(219)
Increase in ECL on off-balance sheet exposures	23	**149**	401
Change in expected credit losses and other credit impairment charges		**100,618**	41,590

The impairment charge includes £164k (2021: nil) in respect of residual value impairment within the Group's secured car finance business.

10. Taxation
Accounting policy
The income tax expense or credit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. At the balance sheet date, the Group is not recognising any deferred tax assets.

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

At Budget 2020, the government announced that the Corporation Tax main rate (for all profits except ring fence profits) for the years starting 1 April 2021 and 2022 would remain at 19%. Deferred taxes at the reporting date have been measured using these expected tax rates and reflected in these statements.

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

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

10.1 Tax credit

	2022 **£000**	2021 £000
Current tax on losses for the year	**(10)**	(97)
Adjustments in respect of prior years	**—**	—
Total credit	**(10)**	(97)
Deferred tax	**—**	—
Adjustments in respect of prior years	**—**	—
Total deferred tax charge	**—**	—
Total tax credit	**(10)**	(97)

10.2 Reconciliation of effective tax rate

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

	2022 **£000**	2021 (restated)* £000
Loss before tax	**(23,783)**	(48,312)
Tax at 19% (2021: 19.00%)	**(4,519)**	(9,179)
Tax effect of:		
Non-deductible expenses for tax purposes	**358**	4,133
Adjustments in respect of prior years	—	—
Losses for which no deferred tax asset is recognised	**8,743**	7,106
Loans to participators credit	**(10)**	(97)
Other differences	**(4,582)**	(2,060)
Total tax credit	**(10)**	(97)

*The amounts disclosed are after the restatement for the correction of the error disclosed in Note 35.

10.3 Unrecognised deferred tax assets

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

	2022 **£000**	2021 (restated[1]) £000
Deductible temporary differences	**828**	608
Tax losses carried forward	**26,502**	21,241
Total unrecognised deferred tax assets	**27,330**	21,849

Deferred tax assets have not been recognised in respect of temporary differences on property, plant and equipment amounting to £3,310k (2021: £2,430k) and tax losses carried forward totalling £109,279k (2021: £86,320k)

11. Financial instruments

Accounting policy

Classification

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain obligation to pay and that evidence a residual interest in the issuer's net assets. Equity instruments issued by the Group include ordinary share capital, preferred shares and share warrants that met the definition of equity.

An instrument is an equity instrument only if both of the conditions below are met:

- The instrument includes no contractual obligation to (a) deliver cash or another financial asset to another entity; or (b) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.
- If the instrument will or might be settled in the issuer's own equity instruments, it is (a) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or (b) a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. Rights and other issues denominated in any currency are equity instruments, provided that certain conditions are met. The issuer's own equity

[1] The 2021 figures have been restated to show the final tax computation for that period.

instruments do not include puttable instruments and obligations arising on liquidation that are classified as equity, or instruments that are contracts for the future receipt or delivery of the issuer's own equity instruments.

Recognition and derecognition
A financial asset or a financial liability is recognised on the consolidated statement of financial position when the Group becomes party to the contractual provisions of the instrument. The Group measures a financial asset or liability on initial recognition at its fair value, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability. The exception to this are financial assets or liabilities measured at fair value through profit or loss (FVTPL), where transaction costs are recognised directly in the income statement as they are incurred. Purchases and sales of financial assets are recognised on trade date.

Derecognition of financial instruments
Financial assets are derecognised when and only when:

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

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

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

Classification of financial assets
There are three principal classification categories for financial assets:

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

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

The 'business model assessment' determines whether the Group's objective is to generate cash flows from collecting contractual cash flows, or by both collecting contractual cash flows and selling financial assets. The assessment is performed at a portfolio level as this best reflects the way business is managed and how information is provided to management. The assessment is based on expected scenarios. If cash flows are realised in a manner that is different from the original expectation, the classification of the remaining assets in that portfolio is not changed but such information is used when assessing new financial assets going forward.
The assessment of cash flow characteristics determines whether the contractual cash flows of the financial asset are solely payments of principal and interest on the principal amount outstanding (SPPI) and is referred to as the 'SPPI test'. For the purposes of the SPPI test, principal is defined as the fair value of the financial asset at initial recognition. Interest is defined as consideration for the time value of money and credit risk associated with the principal amount outstanding and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a reasonable profit margin. The SPPI test is performed at an instrument level based on the contractual terms of the instrument at initial recognition. Only debt instruments can meet the SPPI test. Since both the SPPI and business model tests are passed, almost all the financial assets held by the Group are classified as measured at amortised cost.

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

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

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

Financial assets measured at fair value through the profit or loss (FVTPL) are measured initially and subsequently at fair value. Changes in fair value are recognised in profit and loss as they arise. FVTPL includes derivative instruments (i.e. swaps, forward contracts and warrants).

The accounting policies on the expected credit loss of financial instruments are included in note 33.

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

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

During the year ending 31 December 2022 and 31 December 2021 no financial instruments have been offset in the statement of financial position.

Loan purchase
In December 2021 and January 2022, the Group acquired a portfolio of loans that included purchased or originated credit-impaired (POCI) loans on initial recognition. Further details are in note 32. The expected credit losses on POCI loans have been measured on a lifetime basis, with only movements in ECL being recognised on the balance sheet. Further details of this treatment can be found in note 33.

Financial assets pledged as collateral
The Group has pledged £375.8m (2021: £397.1m) of the financial assets above as encumbered collateral which can be called upon in the event of default of the TFSME and ILTR drawdowns. Further details on these Bank of England funding schemes can be found in note 21.

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

31 December 2022	**FVTPL £000**	**FVOCI £000**	**Amortised cost £000**	**Total £000**
Cash and balances with central bank	—	—	**1,397,062**	**1,397,062**
Cash and balances with other banks	—	—	**23,732**	**23,732**
Debt securities	**13,386**	—	—	**13,386**
Derivative financial assets	**8,346**	—	—	**8,346**
Loans and advances to customers	—	—	**1,937,964**	**1,937,964**
Other assets	—	—	**28,395**	**28,395**
Total financial assets	**21,732**	—	**3,387,153**	**3,408,885**
Derivative financial liabilities	**4,532**	—	—	**4,532**
Deposits by customers	—	—	**2,922,845**	**2,922,845**
Amounts due to other banks	—	—	**180,074**	**180,074**
Other liabilities	—	—	**5,368**	**5,368**
Total financial liabilities	**4,532**	—	**3,108,287**	**3,112,819**

31 December 2021	FVTPL Restated* £000	FVOCI £000	Amortised cost £000	Total £000
Cash and balances with central bank	—	—	191,148	191,148
Cash and balances with other banks	—	—	37,245	37,245
Debt securities	16,244	—	—	16,244
Derivative financial assets	11	—	—	11
Loans and advances to customers	—	—	1,173,035	1,173,035
Other assets	—	—	2,627	2,627
Total financial assets	16,255	—	1,404,055	1,420,310
Derivative financial liabilities	6,205	—	—	6,205
Deposits by customers	—	—	968,000	968,000
Amounts due to other banks	—	—	175,175	175,175
Other liabilities	—	—	4,372	4,372
Total financial liabilities	6,205	—	1,147,547	1,153,752

*The amounts disclosed are after the restatement for the correction of the error disclosed in Note 35.

There were no reclassifications of financial assets or liabilities during the year ended 31 December 2022 or 31 December 2021.

12. Cash and cash equivalents

Accounting policy

Cash and cash equivalents are comprised of cash with central bank (Bank of England), cash and advances to banks and cash held in a government money market fund. Money market funds are highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Investment securities are only classified as cash if they have short maturity of three months or less from the date of acquisition and are in substance cash equivalents.

	2022	2021
	£000	£000
Cash and balances with central bank	**1,397,062**	191,148
Cash and balances with other banks	**23,732**	37,245
Government money market fund	**13,386**	16,244
Total cash and cash equivalents	**1,434,180**	244,637

All cash and cash equivalents were stage 1 assets under IFRS 9 as at 31 December 2022 and 31 December 2021. There was no allowance for expected credit loss in respect of cash and cash equivalents as at 31 December 2022 (31 December 2021: nil).

13. Cash flow information

13.1 Cash generated from/ (used in) operations

		2022	2021
	Notes	**£000**	£000
Adjustments for non-cash items:			
– Change in expected credit losses and other credit impairment charges	9	**100,618**	41,590
– ECL on disposal of assets outside of credit risk appetite	33.1.13	**(10,288)**	—
– Change in provisions for other liabilities and charges	23	**246**	(99)
– Depreciation, amortisation and impairment	5	**6,250**	6,520
– Share option charges	27	**1,341**	2,267
– Interest on lease	18	**62**	178
– Changes to fair value adjustment of hedged risk	14	**1,804**	—
– Change in fair value of financial instruments through profit or loss		**(10,324)**	6,743
– Loss on sale of subsidiary, net contingent consideration	1	**1,856**	—
– Other non–cash items		**(281)**	(3)
Total adjustments for non-cash items		**91,284**	57,196
Changes in operating assets and liabilities:			
– Loans and advances to customers		**(855,269)**	(989,180)
– Deposits by customers	22	**1,954,845**	790,177
– Financial instruments at fair value through profit or loss		**(1,488)**	—
– Amounts due to other banks	21	**8,690**	—
– Prepayments and accrued income	16	**(2,331)**	(121)
– Accruals		**(5,078)**	11,406
– Other assets		**(28,557)**	(1,654)
– Other liabilities		**2,538**	3,436
Total changes in operating assets and liabilities		**1,073,350**	(185,936)

13.2 Net debt reconciliation

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

	Liabilities from financing activities			Other assets		
	Borrowings £000	Leases £000	Sub-total £000	Cash £000	Liquid investments £000	Total £000
Net debt as at 1 January 2021	(177,985)	(5,965)	(183,950)	75,636	225,445	117,131
Financing cash flows	(964,744)	1,153	(963,591)	122,867	939,218	98,494
Interest expense	(5,438)	(178)	(5,616)	—	61,186	55,570
Interest payments	4,992	1,688	6,680	46,134	(52,814)	—
Net debt as at 31 December 2021	(1,143,175)	(3,302)	(1,146,477)	244,637	1,173,035	271,195
Financing cash flows	**(1,947,119)**	**—**	**(1,947,119)**	**1,033,501**	**752,390**	**(161,228)**
Interest income/(expense)	**(33,030)**	**(62)**	**(33,092)**	**—**	**200,056**	**166,964**
Interest payments/ (receipts)	**29,178**	**2,297**	**31,475**	**156,042**	**(187,517)**	**—**
Net debt as at 31 December 2022	**(3,094,146)**	**(1,067)**	**(3,095,213)**	**1,434,180**	**1,937,964**	**276,931**

14. Derivative financial instruments and hedging activities

Accounting policy

Accounting for derivatives

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. During the period, the Group has entered into derivative contracts to hedge against interest rate and foreign currency exposure.

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently measured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Hedge accounting

The Group designates certain derivatives as hedging instruments in respect to interest rate risk in fair value hedges. The Group applies fair value hedge accounting for portfolio hedges of interest rate risk (sometimes referred to as 'macro' hedges). The hedged items are portfolios that are identified as part of the risk management process. The Group applies the exemption to continue using IAS 39 hedge accounting for fair value macro hedges of interest rate risk.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of Comprehensive Income, together with changes in the fair value of the hedges assets or liability that are attributable to the hedged risk.

Fair value gains or losses on derivatives and hedged items are recognised in the Changes in fair value of financial instruments measured at FVTPL line item.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the straight-line method is used is amortised to profit or loss.

At inception of every hedge, the Group produces hedge documentation which identifies the hedged risk, hedged item and hedging instrument. This documentation sets out the methodology used for testing hedge effectiveness.

Derivative financial instruments, relating to interest rate swaps and foreign currency forwards, are held solely for purposes of mitigating interest rate risk and foreign exchange risk, respectively. Where appropriate, the interest rate swaps are designated as hedging instruments under fair value hedge. The only hedge accounting strategy undertaken by the Group is portfolio hedges of interest rate risk.

The following table sets out the derivative instruments held:

	2022			2021 Restated*		
	Notional amount £000	**Asset carrying value £000**	**Liability carrying value £000**	**Notional amount £000**	**Asset carrying value £000**	**Liability carrying value £000**
Derivatives in accounting hedge relationships:						
Interest rate swaps	**235,000**	**8,226**	**757**	—	—	—
Derivatives in economic and not accounting hedge:						
Interest rate swaps	**80,000**	**80**	**—**	—	—	—
Foreign currency forwards	**3,141**	**40**	**—**	876	11	—
Others:						
Warrant derivatives	**43,651**	**—**	**3,775**	74,206	—	6,205
Total derivatives	**361,792**	**8,346**	**4,532**	75,082	11	6,205

*The amounts disclosed are after the restatement for the correction of the error disclosed in Note 35.

Details of derivatives designated as hedging instruments in a qualifying hedging relationship are provided below. Derivatives in economic and not accounting hedge relating to forward contracts are used to assist in managing the Group's liquidity. Interest rate swaps that are included in economic and not accounting hedge are those that were purchased in December 2022 and as such, were excluded in the December re-designation. These swaps were subsequently included in the accounting hedge relationships in the January 2023 re-designation.

In March 2020, the Group issued warrants to subscribe for shares in the capital of the Group. In December 2021, the Group entered into a contract that has created an obligation on the Group to issue share warrants in the event of certain events occurring within a period of 4 years from the signing of the contract. These contracts meet the definition of a derivative and have been recognised as financial liability measured at fair value through profit or loss. The fair values of these derivatives are measured using Monte Carlo simulation valuation model, with any gain or loss on revaluation recognised in the statement of comprehensive income within the changes in fair value of financial instruments measured at FVTPL. The notional amount of the warrants as disclosed in the table above is based on the total number of warrants outstanding multiplied by the exercise price.

The fair values of warrant derivatives are based on Monte Carlo simulations, using market inputs and management's assumptions about future events. They are classified as level 3 fair values in the fair value hierarchy (Note 32) due to the use of unobservable inputs.

The following table contains the total changes in fair value of financial instruments measured at FVTPL:

	2022 £000	2021 £000
Net gain on derivatives designated as portfolio fair value hedges	**1,026**	—
Fair value adjustments from hedge accounting	**(1,804)**	—
Ineffectiveness of fair value hedges	**(778)**	—
Movements on the other financial instruments measured at FVTPL	**9,298**	(6,743)
Changes in fair value of financial instruments measured at FVTPL	**8,520**	(6,743)

Interest rate risk on fixed loans (fair value hedge)

The Group holds portfolios of fixed term loans and therefore is exposed to changes in fair value due to movements in market interest rates. The risk exposure is managed by entering into floating/fixed interest rate swaps.

During 2022 the Bank implemented a fair value macro hedging programme as part of which the Bank increased the use of interest rate swaps to manage our interest rate risk. So far, the fair value macro hedging programme has been applied our fixed rate loan assets only. The Group held swaps since the beginning of the year, however hedge accounting has only been applied since 1 September 2022.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Group. The interest rate risk element is determined with regard to the fixed rate that represents the benchmark rate of interest being hedged.

The interest rate risk is determined as the change in fair value of the fixed rate loans arising from changes in market interest rates. Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the loans attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps.

The effect of credit risk is expected to be minimal on the hedged item and the hedging instrument and is not expected to dominate the hedge relationship. Credit risk will continue to be assessed throughout the life of the hedge relationship to prove that credit risk does not dominate.

We determine hedged items by analysing portfolios of fixed rate loans into repricing time buckets based on expected, rather than contractual, repricing dates. The hedging instruments are designated appropriately to those repricing time buckets. The hedge relationship is tested for effectiveness prospectively at the designation date, and retrospectively at each de-designation on a monthly basis. This is done by comparing fair value movements of the designated proportion of the bucketed loans, against the fair value movements of the derivatives, to ensure that they are within an 80% to 125% range.

The aggregated fair value changes in the hedged loans are recognised on the balance sheet as an asset and liability respectively. At the end of every month, we de-designate the hedge relationships and redesignate them as new hedges in order to minimise the ineffectiveness from early repayments and accommodate new exposures. At de-designation, the fair value hedge accounting adjustments are amortised on a straight-line basis over the remaining period until the repricing of the loan. Amortisation begins at the date of de-designation.

Possible sources of ineffectiveness are as follows:

- Differences between the expected and actual volume of prepayments, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;
- Differences in the benchmark rates of interest used to value the hedged item and the hedging instrument, as cash collateralised interest rate swaps are discounted using SONIA but this is not the benchmark rate of interest for the hedged item;
- Hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument;
- Mismatch in the maturities of the hedged item and hedging instrument.

The following table contains details of the hedging instruments used in the Group's hedging strategy.

	Notional	**Carrying Amount (asset/(liability)**	**Statements of financial position line item**	**Changes in fair value used for calculating hedge ineffectiveness (income/(charge))**
2022	**£000**	**£000**		**£000**
Interest rate swaps	**210,000**	**8,226**	Derivative financial assets	**1,026**
	25,000	**(757)**	Derivative financial liabilities	
	235,000	**7,469**		**1,026**

The following table contains details of the hedged exposures covered by the Group's hedging strategy:

	Carrying Amount (asset/(liability))	**Accumulated amount of the fair value adjustments on the hedged item**	**Statements of financial position line item**	**Changes in fair value used for calculating hedge ineffectiveness (income/(charge))**
2022	**£000**	**£000**		**£000**
Fixed rate loans and advances to customers	**1,813,290**	**(1,804)**	Loans and advances to customers	**(1,804)**

For the purposes of calculating ineffectiveness recognised in the statement of comprehensive income, the total accumulated amount of fair value hedge adjustment is used.

The contractual maturities of derivatives designated in a hedge relationship are included in Note 33.3.2.

15. Loans and advances to customers

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

- unsecured personal loans;
- secured car finance loans (hire purchase and personal contract purchase loans); and
- credit cards

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

HP and PCP leases have fixed payments and are held to maturity. The expected credit loss allowance on car finance loans includes £164k (2021: nil) relating to provisions against residual values of vehicles subject to personal contract purchase loans. These provisions are included within the impairment charge and in the calculation of coverage ratios.

	2022 £000	2021 £000
Gross unsecured lending	**1,786,045**	1,107,477
Less: allowance for expected credit losses	**(131,601)**	(50,916)
Total unsecured lending	**1,654,444**	1,056,561
Gross finance lease receivables	**330,422**	136,558
Less: unearned finance income	**(35,614)**	(17,548)
Net investment in finance leases	**294,808**	119,010
Less: allowance for expected credit losses	**(9,484)**	(2,536)
Total finance lease receivables	**285,324**	116,474
Fair value adjustment for hedged risk	**(1,804)**	—
Total loans and advances to customers	**1,937,964**	1,173,035

Secured car finance loans allowance for expected credit losses includes £164k relating to provisions against residual values of vehicles subject to personal contract purchase loans. These provisions are included within the impairment charge and in the calculation of coverage ratios.

Gross finance lease loans are receivable as follows:

	2022 £000	2021 £000
Less than one year	**89,328**	37,277
One to two years	**85,312**	35,497
Two to three years	**76,338**	30,598
Three to four years	**57,779**	22,455
Four to five years	**21,665**	10,731
Total gross finance lease receivables	**330,422**	136,558

Note that this table differs to the maturity table in note 33. This is due to the above table represents the undiscounted contractual repayments of car finance loans, while the table in note 33 representing the maturity profile of the net investment in finance leases.

16. Prepayments and accrued income

	2022 £000	2021 £000
Prepayments	**5,170**	2,681
Accrued income	**124**	282
Total prepayments and accrued income	**5,294**	2,963
Current portion	**5,159**	2,288
Non-current portion	**135**	675

17. Other assets

Customer receivables primarily relates to customer loan and credit card repayments that have been remitted, but the cash has not yet cleared the bank account. The 2022 balance is significantly higher than the 2021 balance because the 31 December 2022, unlike 31 December 2021, was a non-business day, which meant that cash only cleared post the year-end on 3 January 2023.

Deferred consideration relates to the sale of Zopa Limited to Plata Holdings UK Limited on 10 February 2022. This transaction is detailed in note 1.

	2022 £000	2021 £000
Customer receivables	**25,798**	1,350
Deferred consideration	**1,365**	—
Trade debtors	**581**	—
Others	**2,276**	4,944
Total other assets	**30,020**	6,294
Current portion	**30,020**	6,294

18. Right-of-use assets and lease liabilities

Accounting policy & commentary

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

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

Lessee leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments).

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. In the absence of any borrowing history, the Group determined its incremental borrowing rate to be 10%.

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

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

- the amount of the initial measurement of lease liability;
- any initial direct costs, and
- restoration costs.

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

In September 2021 the Group surrendered one of the two lease agreements for office space.

18.1 Right-of-use assets

	2022	2021
	£000	£000
Balance as at 1 January	**2,828**	5,613
Disposal	**—**	(955)
Depreciation charge for the year	**(1,548)**	(1,830)
Balance as at 31 December	**1,280**	2,828

18.2 Lease liabilities

	2022	2021
	£000	£000
Balance as at 1 January	**3,302**	5,965
Interest charged during the year	**62**	178
Disposals	**—**	(1,153)
Payments during the year	**(2,297)**	(1,688)
Balance as at 31 December	**1,067**	3,302
– of which is current	**1,067**	2,235
– of which is non-current	**—**	1,067

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

	2022	2021
	£000	£000
Less than one year	**1,067**	2,235
One to two years	**—**	1,067
Two to three years	**—**	—
Three to four years	**—**	—
Four to five years	**—**	—
More than five years	**—**	—
Total undiscounted lease liabilities	**1,067**	3,302

18.3 Amounts recognised in the income statement

	Notes	**2022 £000**	2021 £000
Interest expense	2		
Interest on lease liabilities		**(62)**	(178)
Operating expenses	5		
Depreciation of right-of-use assets		**(1,548)**	(1,830)
Loss on disposal of lease		**—**	(5)
Total amounts recognised in the income statement		**(1,610)**	(2,013)

19. Property, plant and equipment

Accounting policy

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

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

- office equipment 3–5 years; and
- fixtures and fittings 3 years.

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

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

2022	**Office equipment £000**	**Fixtures and fittings £000**	**Total £000**
Cost			
Balance as at 1 January	**3,435**	**67**	**3,502**
Additions	**610**	**—**	**610**
Disposals	**—**	**(67)**	**(67)**
Balance as at 31 December	**4,045**	**—**	**4,045**
Accumulated depreciation			
Balance as at 1 January	**2,424**	**24**	**2,448**
Depreciation charge for the year	**832**	**19**	**851**
Disposals	**—**	**(43)**	**(43)**
Balance as at 31 December	**3,256**	**—**	**3,256**
Net book value	**789**	**—**	**789**

2021	Office equipment £000	Fixtures and fittings £000	Total £000
Cost			
Balance as at 1 January	2,967	1,003	3,970
Additions	468	52	520
Disposals	—	(988)	(988)
Balance as at 31 December	3,435	67	3,502
Accumulated depreciation			
Balance as at 1 January	1,596	945	2,541
Disposals	—	(988)	(988)
Depreciation charge for the year	828	67	895
Balance as at 31 December	2,424	24	2,448
Net book value	1,011	43	1,054

The cost of property, plant and equipment which has been fully depreciated and is still in use is £2,673k (2021: £524k).

20. Intangible assets

Accounting policy & commentary

Banking License

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

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

Other intangible assets

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

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

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

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

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

2022	**Purchased software £000**	**Internally generated £000**	**Banking license £000**	**Total £000**
Cost				
Balance as at 1 January	**799**	**16,567**	**1,973**	**19,339**
Additions	**282**	**3,667**	**—**	**3,949**
Balance as at 31 December	**1,081**	**20,234**	**1,973**	**23,288**
Accumulated amortisation				
Balance as at 1 January	**735**	**9,258**	**—**	**9,993**
Amortisation charge for the year	**34**	**3,793**	**—**	**3,827**
Balance as at 31 December	**769**	**13,051**	**—**	**13,820**
Net book value	**312**	**7,183**	**1,973**	**9,468**

2021	Purchased software £000	Internally generated £000	Banking license £000	Total £000
Cost				
Balance as at 1 January	799	14,696	1,973	17,468
Additions	—	2,035	—	2,035
Write-offs	—	(164)	—	(164)
Balance as at 31 December	799	16,567	1,973	19,339
Accumulated amortisation				
Balance as at 1 January	693	5,669	—	6,362
Amortisation charge for the year	42	3,671	—	3,713
Write-offs	—	(82)	—	(82)
Balance as at 31 December	735	9,258	—	9,993
Net book value	64	7,309	1,973	9,346

21. Amounts due to banks

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

	2022 £000	2021 £000
Amounts drawn down under TFSME	**151,067**	150,046
Amounts drawn down under ILTR	**20,234**	25,046
Amounts due to other banks	**8,773**	83
Total amounts due to banks	**180,074**	175,175

22. Deposits by customers

	2022 £000	2021 £000
Demand deposits	**822,433**	12,896
Term deposits	**2,100,412**	955,104
Total deposits by customers	**2,922,845**	968,000

23. Provisions

Accounting policy & commentary

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

The accounting policies relating to the off-balance sheet expected credit loss of financial instruments disclosed below, are included in note 33.

Dilapidations relates to the cost expected to be incurred to return the properties back to the landlords at their initial state when the lease ends in 2023. The FCA levy are fees due to regulators for banking service and are settled annually. Off balance sheet expected credit losses (ECL), relate to provisions on undrawn credit card balances. The accounting policies on off balance sheet expected credit losses are included in note 32.

2022	**Dilapidations £000**	**FCA levy £000**	**Off–balance sheet ECL £000**	**Other £000**	**Total £000**
Balance as at 1 January	**491**	**152**	**581**	**80**	**1,304**
Additions	**1**	**477**	**730**	**—**	**1,208**
Utilised in the year	**—**	**(477)**	**—**	**—**	**(477)**
Released in the year	**—**	**(152)**	**(581)**	**(80)**	**(813)**
Balance as at 31 December	**492**	**—**	**730**	**—**	**1,222**

2021	Dilapidations £000	FCA levy £000	Off–balance sheet ECL £000	Other £000	Total £000
Balance as at 1 January	750	152	180	476	1,558
Additions	568	—	581	—	1,149
Utilised in the year	(148)	—	—	(297)	(445)
Released in the year	(679)	—	(180)	(99)	(958)
Balance as at 31 December	491	152	581	80	1,304

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

24. Other liabilities

	2022 £000	2021 £000
Other taxation and social security	**1,622**	1,212
Trade creditors	**1,026**	1,747
Yield support derivative	—	43
Customer payables	**4,248**	2,583
Other creditors	**190**	167
Total other liabilities	**7,086**	5,752
Current portion	**7,086**	5,752

25. Called-up share capital & share premium

25.1 Called-up share capital – share numbers

Called-up ordinary share capital, issued and fully paid	Ordinary Shares	Ordinary A Shares	Ordinary B Shares	Ordinary C Shares	Series 1 & 2 preferred Shares	Series 3 preferred Shares	Total Shares
Balance as at 1 January 2021	28,370,739	835,000	13,736,449	44,169,611	13,736,449	4,089,251	104,937,499
Issue of shares	36,920,185	—	—	6,309,938	—	—	43,230,123
Share buyback	—	(833,000)	—	—	—	—	(833,000)
Share simplification	64,217,998	(2,000)	(13,736,449)	(50,479,549)	(13,736,449)	—	(13,736,449)
Balance as at 31 December 2021	129,508,922	—	—	—	—	4,089,251	133,598,173
Balance as at 1 January 2022	**129,508,922**	**—**	**—**	**—**	**—**	**4,089,251**	**133,598,173**
Issue of shares	**14,279,287**	**—**	**—**	**—**	**—**	**—**	**14,279,287**
Balance as at 31 December 2022	**143,788,209**	**—**	**—**	**—**	**—**	**4,089,251**	**147,877,460**

25.2 Called-up share capital — share notional values

Called-up ordinary share capital, issued and fully paid	Ordinary Shares £000	Ordinary A Shares £000	Ordinary B Shares £000	Ordinary C Shares £000	Series 1 & 2 preferred Shares £000	Series 3 preferred Shares £000	Total Shares £000
Balance as at 1 January 2021	283	8	69	442	69	41	912
Issue of shares	369	—	—	63	—	—	432
Share buyback	—	(8)	—	—	—	—	(8)
Share simplification	643	—	(69)	(505)	(69)	—	—
Balance as at 31 December 2021	1,295	—	—	—	—	41	1,336
Balance as at 1 January 2022	**1,295**	**—**	**—**	**—**	**—**	**41**	**1,336**
Issue of shares	**143**	**—**	**—**	**—**	**—**	**—**	**143**
Balance as at 31 December 2022	**1,438**	**—**	**—**	**—**	**—**	**41**	**1,479**

25.3 Share premium

	Total £000
Balance as at 1 January 2021 (restated*)	189,144
Premium received on issued shares	178,540
Cost of issuing shares	(4,552)
Balance as at 31 December 2021 (restated*)	363,132
Balance as at 1 January 2022 (restated*)	**363,132**
Premium received on issued shares	**60,029**
Cost of issuing shares	**(2,400)**
Balance as at 31 December 2022	**420,761**

*The amounts disclosed are after the restatement for the correction of the error disclosed in Note 35.

In 2022 the Group issued 14,279,287 shares (2021: 43,230,123). In June 2021 64,217,998 ordinary shares were issued through a share simplification exercise to reduce the number of share classes. The share buyback also occurred in June 2021. All share issues within the year were fully paid for within the period.

The amounts disclosed are after the restatement for the correction of the error disclosed in Note 35.

26. Other reserves

Treasury shares include both repurchased ordinary shares held by Zopa's Employee Benefit Trust and loans issued to employees to purchase the nominal value of shares included in their Enterprise Management Incentive (EMI) and Joint Share Ownership Plan (JSOP) scheme options.

The merger reserve was created in 2017 following a re-organisation that installed Zopa Group Limited as the parent company of the Group, reinstating Zopa Holdings Inc.

The currency revaluation reserve was caused by US entities, Zopa Inc and Zopa Holdings Inc, being included in the Group prior to their dissolution in June 2020. The balance was reclassified to retained losses in 2022.

The accounting policies on the share schemes are included in note 27.

	Share schemes £000	Currency revaluation reserve £000	Merger reserve £000	Capital redemption reserve £000	Treasury shares £000	Total £000
Balance as at 1 January 2021 (restated*)	9,901	1,016	51,464	—	(76)	62,305
Share options movement	2,267	—	—	—	—	2,267
Net repurchase of own shares	—	—	—	—	(12)	(12)
Net movement in share purchase loans	—	—	—	—	3	3
Capital restructuring	—	—	—	6	—	6
Balance as at 31 December 2021 (restated*)	12,168	1,016	51,464	6	(85)	64,569
Balance as at 1 January 2022 (restated*)	**12,168**	**1,016**	**51,464**	**6**	**(85)**	**64,569**
Share options movement	**1,341**	**—**	**—**	**—**	**—**	**1,341**
Net repurchase of own shares	**—**	**—**	**—**	**—**	**(14)**	**(14)**
Net movement in JSOP loans	**—**	**—**	**—**	**—**	**39**	**39**
Net movement in EMI loans	**—**	**—**	**—**	**—**	**2**	**2**
Capital restructuring	**—**	**(1,016)**	**—**	**—**	**—**	**(1,016)**
Balance as at 31 December 2022	**13,509**	**—**	**51,464**	**6**	**(58)**	**64,921**

*The amounts disclosed are after the restatement for the correction of the error disclosed in Note 35.

27. Share schemes

Accounting policy

The Group's share option schemes are in the form of equity-settled share-based payments. The fair value of options granted is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted which is calculated using a Black-Scholes model.

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

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

Equity-settled share-based compensation benefits are provided to employees of Zopa Group's subsidiaries via options granted under the Zopa Group Limited Joint Share Option Plan (JSOP), the Non-Tax Advantaged Share Option Plan (NTA options) and the Management Incentive Plan (MIP). They are all granted, and equity settled by the parent company, Zopa Group Limited. Set out below are the range of exercise prices and the weighted average lifetime of outstanding share options held by employees of the Group at the end of the year.

2022	**NTA options £000**	**JSOP £000**	**MIP £000**	**Total £000**	**Weighted average exercise price £**
Balance at 1 January	**1,465,813**	**5,230,533**	**7,140,000**	**13,836,346**	**3.9755**
Granted	**478,853**	**30,000**	**104,500**	**613,353**	**2.7874**
Exercised	**(134,557)**	**(4,128)**	—	**(138,685)**	**1.3102**
Lapsed	**(51,027)**	**(260,876)**	**(351,241)**	**(663,143)**	**3.8621**
Balance at 31 December	**1,759,082**	**4,995,529**	**6,893,259**	**13,647,871**	**3.9696**
Range of exercise prices (£)	**0.01 – 7.00**	**2.80 – 7.00**	—	**0.01 – 7.00**	—
Weighted average remaining contractual life (years)	**6.78**	**7.25**	**7.61**	**7.37**	—
Exercisable options at 31 December	**1,140,705**	**3,061,787**	**3,683,400**	**7,885,892**	**3.8756**

2021	NTA options Number	JSOP Number	MIP Number	Total Number	Weighted average exercise price £
Balance at 1 January	1,266,848	1,792,532	6,657,500	9,716,880	3.4357
Granted	380,500	3,500,694	832,500	4,713,694	5.0942
Exercised	(107,090)	—	—	(107,090)	1.9844
Lapsed	(74,445)	(62,693)	(350,000)	(487,138)	2.5319
Balance at 31 December	1,465,813	5,230,533	7,140,000	13,836,346	3.9755
Range of exercise prices (£)	0.77 – 7.00	2.80 – 7.00	3.50 – 3.50	0.77 – 7.00	—
Weighted average remaining contractual life (years)	6.41	8.28	8.61	8.25	—
Exercisable options at 31 December	1,080,997	2,324,299	2,095,625	5,500,921	3.6313

For options granted during the year the weighted average fair value of the options at the measurement date was £2.9.

For share options exercised during the year, the weighted-average share price at the date of exercise was £5.0728 (2021: £4.3528).

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

	2022	2021
Expected volatility	**47-49%**	47-48%
Expected life (years)	**5**	5
Weighted average share price	**£3.2759**	£4.4855
Exercise price	**£0.01-£7.00**	£3.50-£7.00
Expected dividends	**None**	None
Risk free rate	**1.0%-3.6%**	0.4%-0.8%

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

The share-based payment charge in the year was £1,341k (2021: £2,267k).

28. Related parties

Key management personnel

IAS 24 Related party disclosures requires additional information for key management compensation. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Directors are considered to be the key management personnel for disclosure purposes. Directors' remuneration is disclosed within note 7. The-share-based compensation expense recognised during the year attributable to Directors amounted to £370k (2021: £850k). In total, the key management personnel compensation amounted to £2,087k in 2022 (2021: £2,870k).

In January 2022, one executive director exercised 100,000 options under the EMI loan arrangement. As at 31 December 2022, one executive director had an EMI loan outstanding for £150k. Additionally, two executive directors had JSOP loans for £46k. These loans were used solely to exercise share options and the shares issued are then subject to a call option until the loans are repaid. One executive director sold 100,000 shares in 2022.

Other transactions with related parties

Warrants

On 11 June 2020, the Group issued Set A, B, C Warrants ("A Warrants", "B Warrants" and "C Warrants") to IAG Silverstripe LLC with original expiry dates of 11 December 2021, 11 June 2023 and 11 June 2025. On 18 March 2021, these warrants were amended to extend the expiry dates by six (6) months. On 10 November 2021, A Warrants were partially exercised. The table below shows the total exercisable warrants, exercise price per share, updated expiry date and outstanding warrants.

				Outstanding warrants	
Warrants	**Number of warrants issued**	**Exercise price per warrant**	**Date of expiry**	**2022**	**2021**
A Warrants	17,525,412	£3.17	11 June 2022	**—**	9,638,977
B Warrants	8,762,706	£3.17	11 December 2023	**8,762,706**	8,762,706
C Warrants	5,007,261	£3.17	11 December 2025	**5,007,261**	5,007,261

On 8 December 2021, the Group entered into share subscription agreement with various investors. As part of the 2021 Subscription Agreement, the investors were given the rights to Set D Warrants ("D Warrants") in the event that B Warrants and C Warrants are exercised. Each Set D Warrant comprises the right to subscribe for one Ordinary Share in cash at a subscription price per share equal to its nominal value (£0.01) and expires ninety (90) days from the grant date. No D Warrants were issued in 2022.

A Warrants, B Warrants, C Warrants and D Warrants are classified a liability and presented as financial liability and presented as derivative liability in the statement of financial position (note 14). These warrants are classified as derivative instruments as the fixed-for-fixed requirement under IAS 32 are not satisfied i.e. the terms of the warrants indicate that, at the inception of the instrument, they can be settled by variable number of its shares on exercise of the warrants.

Others
Following the change in control of Zopa Group Limited in June 2020, Click Loans Limited, an existing customer and an existing supplier became a related party. Fee and commission expense and fee and commission income and related payable and receivable balances as a result of these transactions are disclosed before.

On 10 February 2022, the Group sold Zopa Limited to Plata Holdings UK Limited ("Plata"), an affiliate of IAG Silverstripe Partners LLC. The Group has agreed to service the loan portfolio sold to Plata and as a result, have earned loan servicing fee income during 2022 as a direct result of the sale. This is disclosed in the below table.

2022	**Income £000**	**Expenditure £000**	**Amounts due from related parties £000**	**Amounts due to related parties £000**
Credit card balances outstanding from key management personnel	**—**	**—**	**3**	**—**
Fee and commission income – Click Loans Limited	**288**	**—**	**—**	**—**
Fee and commission expense – Click Loans Limited	**—**	**2**	**—**	**—**
Consideration for sale of Zopa Limited to Plata Holdings UK Limited	**3,116**	**—**	**—**	**—**
Loan servicing fee income – Plata Finance Limited	**1,327**	**—**	**—**	**—**
Amount receivable from related party customer – Click Loans Limited	**—**	**—**	**—**	**—**
Deferred consideration receivable from Plata Holdings UK Limited	**—**	**—**	**1,365**	**—**
Amount receivable from Plata Finance Limited	**—**	**—**	**651**	**—**

2021	**Income £000**	**Expenditure £000**	**Amounts due from related parties £000**	**Amounts due to related parties £000**
Credit card balances outstanding from key management personnel	—	—	8	—
Fee and commission income – Click Loans Limited	237	—	—	—
Fee and commission expense – Click Loans Ltd	—	11	—	—
Amount receivable from related party customer – Click Loans Limited	—	—	46	—

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

29. Ultimate controlling party
As at 31 December 2021, IAG Silverstripe Partners LLC (incorporated in the United States of America) was considered to be the ultimate parent and controlling party. However, due to the changes in ownership arising from the fundraise that was completed in February 2022, Zopa Group Limited has no ultimate parent and controlling party as at 31 December 2022.

30. Contingent liabilities and commitments
Accounting policy
Customer credit commitments are granted as part of normal product facilities which are offered to customers. Customer commitments comprise undrawn facilities granted on credit cards and approved secured car finance loans. Even though these obligations are not recognised on the balance sheet, they do contain credit risk and an ECL is calculated and recognised for them (see note 33). When these commitments are drawn down or called upon, and meet the recognition criteria as detailed in note 11, these are recognised within our loans and advances to customers.

Purchase commitments represent the future minimum lease payments under non-cancellable contracts outside the scope of IFRS 16 leases. Note 18 provides information on financial commitments where the Company is a lessee as per IFRS 16 leases.

	2022	2021
	£000	£000
Loans and advances to customers commitments		
– Undrawn credit card commitments	**96,172**	33,513
Finance lease commitments		
– Finance lease agreements to lend in the future	**2,017**	1,160
Purchase commitments:		
Under one year	**4,844**	3,470
Between one and five years	**6,507**	3,686
Over five years	**—**	—
Total contingent liabilities and commitments	**109,540**	41,829

31. Fair value of financial instruments

Accounting policy

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

The fair values of financial instruments are measured using a fair value hierarchy which reflects the significance of the inputs used in making the measurements. There are three levels to the hierarchy as follows:

- Level 1: quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). A Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads. Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market; and
- Level 3: inputs that include one or more unobservable input that is significant to the measurement as whole.

2022	**Carrying value £000**	**Level 1 (quoted market price) £000**	**Level 2 (using observable inputs) £000**	**Level 3 (significant unobservable inputs) £000**	**Total fair value £000**
Cash and balances with central banks	**1,397,062**	**1,397,062**			**1,397,062**
Cash and balances with other banks	**23,732**	**23,732**	**—**	**—**	**23,732**
Debt securities	**13,386**	**13,386**	**—**	**—**	**13,386**
Derivative financial assets	**8,346**	**—**	**8,346**	**—**	**8,346**
Loans and advances to customers	**1,937,964**	**—**	**—**	**1,946,822**	**1,946,822**
Other assets	**28,395**	**—**	**—**	**28,395**	**28,395**
Total financial assets	**3,408,885**	**1,434,180**	**8,346**	**1,975,217**	**3,417,743**
Derivative financial liabilities	**4,532**	**—**	**—**	**4,532**	**4,532**
Deposits by customers	**2,922,845**	**—**	**—**	**2,911,006**	**2,911,006**
Amounts due to other banks	**180,074**	**180,074**	**—**	**—**	**180,074**
Other liabilities	**5,368**	**—**	**—**	**5,368**	**5,368**
Total financial liabilities	**3,112,819**	**180,074**	**—**	**2,920,906**	**3,100,980**

2021 (Restated*)	Carrying value £000	Level 1 (quoted market price) £000	Level 2 (using observable inputs) £000	Level 3 (significant unobservable inputs) £000	Total fair value £000
Cash and balances with central banks	191,148	191,148	—	—	191,148
Cash and balances with other banks	37,245	37,245	—	—	37,245
Debt securities	16,244	16,244	—	—	16,244
Derivative financial assets	11	11	—	—	11
Loans and advances to customers	1,173,035	—	—	1,167,287	1,167,287
Other assets	2,627	—	—	2,627	2,627
Total financial assets	1,420,310	244,648	—	1,169,914	1,414,562
Derivative financial liabilities	6,205	—	—	6,205	6,205
Deposits by customers	968,000	—	—	968,000	968,000
Amounts due to other banks	175,175	175,175	—	—	175,175
Other liabilities	4,372	—	—	4,372	4,372
Total financial liabilities	1,153,752	175,175	—	978,577	1,153,752

*The amounts disclosed are after the restatement for the correction of the error disclosed in Note 35.

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

- cash and balances at central banks – These represent amounts with an initial maturity of less than three months and as such, their carrying value is considered a reasonable approximation of their fair value;
- cash and balances with other banks – These represent either amounts with an initial maturity of less than three months or longer-term variable rate deposits placed with banks, where adjustments to fair value in respect of the credit risk of the counterparty are not considered necessary. Accordingly, the carrying value of the assets is considered to not be materially different from their fair value;
- UPL and car finance loans and advances to customers – For fixed rate lending products, the Company has forecast cash flows for the portfolios over the lives of the loans. The fair value of the loans has been estimated by discounting those cash flows by the current appropriate market reference rate. The Group deems this to be the discount rate which discounts projected cash flows of December 2022 originated loans to a net present value of zero, with an adjustment to account for the lack of active market for the loan portfolio. This approach is consistent to that applied for valuation of the loan portfolio acquired from retail P2P investors in December 2021 and January 2022;
- credit cards loans and advances to customers have no contractual maturity and intercompany balances are repayable on demand. Therefore, their carrying value is not considered to be materially different from their fair value;
- deposits by customers – For fixed rate deposit products, the Company has forecast cash flows for the portfolio until their contractual maturity. The fair value of the deposits has been estimated by discounting those cashflows by the year end rate offered to alike customers. For easy access products, interest rate is variable, moving in line with the market. As such, their carrying value is considered a reasonable approximation of their fair value;
- other assets and liabilities – These represent short term receivables and payables and as such, their carrying value is not considered to be materially different from their fair value.
- derivative financial instruments:
  - derivatives held for currency risk management – These represent foreign currency forward contracts which are carried at fair value. An equivalent quoted forward rate with similar term is used to calculate the fair value as at 31 December 2022;
  - derivatives held for hedging purposes – These represent interest rate swaps which are carried at fair value. The fair values of derivatives are obtained from discounted cash flow models; and
  - warrants - These represent warrant derivatives which are carried at fair value. These warrants were issued by the Group and did not meet the equity classification (refer to note 28 for further details). Warrant derivatives are valued using Monte Carlo Simulations (MCS). Inputs are deemed observable up to the risk-free rate in which the UK Government bond yield was used as a proxy and equity volatility which is based on the historical share price volatility of a set of comparable companies. Unobservable inputs to the valuation include dividend yield, spot share price of the Group, discount factor, probability of funding event and size of future fund raises. The most significant inputs are the spot share price of the Group and probability of funding event and are not based on observable market data.

Sensitivity analysis is performed on warrant derivatives as the valuation includes significant unobservable inputs (Level 3) to generate a range of reasonably possible alternative valuations. The sensitivity methodologies applied take account of the nature of the valuation technique used, as well as the availability and reliability of observable proxy and historical data.

The Level 3 movement analysis, significant unobservable inputs and sensitivity analysis for warrant derivatives are described below.

Fair value measurements using significant unobservable inputs (Level 3)

The following table presents the changes in level 3 items for the period ended 31 December 2022.

	As at 31 December 2021 £000	Additions £000	Total gains/ (losses) in the period recognised in the income statement £000	As at 31 December 2022 £000
Derivative financial liabilities – warrants	**(6,205)**	**—**	**2,430**	**(3,775)**

Valuation inputs and relationship to fair value
The following table summarises the quantitative information about the significant unobservable inputs used in Level 3 fair value measurements of warrant liabilities:

Description	Fair value at 31 December 2022 £000	Fair value at 31 December 2021 £000	Unobservable inputs	Range of inputs 2022 Min	2022 Max	2021 Min	2021 Max
Warrant derivatives	**3,775**	6,205	Spot share price (£)	**3.47**	**3.47**	5.07	5.07
			Probability of non-IPO investment round (%)	**20**	**90**	10	50
			Probability of IPO (%)	**7**	**50**	15	60

IPO investment rounds are the cumulative probabilities of an event occurring between the valuation date and the expiry of the warrants.

Sensitivity analysis of valuation using unobservable inputs
The following section describes the significant unobservable inputs identified in the table above, and the sensitivity of fair value measurement of the instruments categorised as Level 3 assets or liabilities to changes in significant unobservable inputs. Where sensitivities are described, the inverse relationship will also generally apply.

Where reliable interrelationships can be identified between significant unobservable inputs used in the fair value measurement, a description of those interrelationships is included below.

Spot share price
Spot share price for the valuations is primarily derived through the use of Price/Book multiples to determine a value for the overall Group which is then divided by the number of shares in issue. Where a fund raise has been completed including new equity investors in close proximity to the valuation date, the price per share paid by the investors is also taken into consideration.

In general, an increase in share price in isolation will result in a fair value increase for the holder of the warrant. The Group performed sensitivity analyses using different spot share prices to show a possible range of the fair value of the warrants at 31 December 2022 and 2021. The Group sensitised the spot share price to show the impact in the range of 5.0% - 10% over the fair value. Only a positive change in the spot price has been shown because there is no expectation of an upward trend of the future share price.

Probability of non-IPO and IPO investment round
The probability of funding event affects the valuation as the warrants can only be exercised in a future funding round. The sensitivity of the warrant to these variables is judgemental reflecting their significance of unobservable inputs to the valuation. In general, increase in probability of a funding event will increase the fair value of the warrants.

The Group performed sensitivity analysis using different assumptions of probability over future funding events to show possible ranges of the fair value of warrants as at 31 December 2022 and 2021.

Where non-IPO funding probability in all periods increases by 10%, this can be linked to a 10% lower probability of an IPO event. As such, when it is less likely for an IPO to take place, it is assumed that the Group will raise additional equity capital through further private investment rounds. The converse applies the same principle, if it is more likely for an IPO (say an increase of 10%) then the probability of a non-IPO funding event is reduced by 10%.

The table shows the changes in fair value of all outstanding warrants due to changes in spot share price and the probability of an investment round, respectively.

Sensitivity		Increase/ (Decrease) in FV of warrant derivative liabilities 2022 £000	2021 £000
Spot share price	+5%	**957**	362
	+10%	**2,017**	718
Funding event probability	+10%	**555**	2,172
	-10%	**(556)**	(2,182)

Valuation process

Management engaged a third-party specialist to perform the valuations of the warrant derivatives. Discussions of the valuation process and results are held between the Finance team and the third-party specialist. The finance team reports directly to the Chief Financial Officer (CFO) and Audit Committee.

The main level 3 inputs used by the Group are derived and evaluated as follows:

- funding event probabilities are estimated based on latest forecasts and Capital Management Plans which are produced by management for approval by the Group and Bank Boards and shared where relevant with the PRA.
- spot share price of the Group are estimated based on the implied equity value of the Group and P/B multiple. The movement in the P/B multiple is analysed using comparative companies in the digital banking sector, as well as companies within the wider UK/EU commercial banking sector.

32. Loan portfolio acquisition

In January 2022 and December 2021, the Group acquired a loan portfolio consisting of both unsecured personal loans and hire purchase car finance loans. These loan acquisitions were identical and were purchased from Retail investors serviced by Zopa Limited's peer-to-peer lending platform, utilising a contractual clause of the loans which enabled the Group to purchase loans from investors at an amount equal to their principal value.

Since each loan was purchased at their principal value, which does not represent a market transaction, the fair value of the loans does not equal the purchase price of the loans. As a result, the fair value of the loans has been estimated using IFRS 13 fair value methodology which is disclosed in note 31. No market observable inputs existed across the portfolio, and as such, they have been measured using a discounted cash flow model. Inputs into this calculation include:

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

The discount rate used in this calculation is the discount rate which exactly discounts projected cash flows of January 2022 and December 2021 originated loans to a net present value of zero, with an adjustment to account for the lack of active market for the loan portfolio. This combined rate was deemed to be 6.86%. This assumption has been sensitised below.

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

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

Loan acquisition initial values

		Fair value at acquisition			
	Purchase price (principal value) £m	**Level 1 (Quoted market price) £m**	**Level 2 (using observable inputs) £m**	**Level 3 (significant unobservable inputs) £m**	**Total fair value £m**
Purchased loans (January 2022)	**71.2**	**—**	**—**	**70.6**	**70.6**
Purchased loans (December 2021)	346.9	—	—	345.6	345.6

Discount rate sensitivity

	Sensitivity of discount percentage into Level 3 fair value estimate				
2022	**-1.0% £m**	**-0.5% £m**	**Base case (6.86%) £m**	**+0.5% £m**	**+1.0% £m**
Purchased loans	**71.1**	**70.9**	**70.6**	**70.3**	**70.1**
Movement	**0.5**	**0.3**	**—**	**(0.3)**	**(0.5)**

The £0.7m (2021: £1.3m) loss on acquisition is included in operating expenses in note 5.

33. Financial risk management

33.1 Credit risk

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

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

33.1.1 Governance around ECL allowance

The IFRS 9 ECL models used by the Group have been developed in-house and validated by the second line of defence. As explained further in note 35.1.3 below, the determination of expected credit losses is inherently judgemental and requires management to make significant judgements and estimates. To ensure that these judgements and estimates remain appropriate, the Group has in place a robust governance framework around ECL allowance. The main components of that framework are as follows:

- **Board Audit Committee (BAC)** – reviews and challenges the appropriateness of significant judgements and critical estimates made by management, including the ECL allowance.
- **Board Risk Committee (BRC)** – reviews and challenges the appropriateness of the base case and outer macroeconomic scenarios, and scenario weightings used in the measurement of ECL. The committee also reviews and challenges any significant modelling assumptions and inputs.
- **Risk Management Committee (RMC)** – reviews and challenges material new models and required model changes. It also reviews and challenges results of model performance monitoring and resulting actions proposed by model owners. It delegates certain responsibilities over less material models to the Credit and Model Risk Subcommittee. RMC also reviews and challenges the base case economic scenario and outer macroeconomic scenarios, and scenario weightings.
- **Credit and Model Risk Subcommittee (CMRC)** – responsible for monitoring of credit risk and its impact on the measurement of ECL. It also reviews and challenges results of model performance monitoring and resulting actions proposed by model owners.
- **Assets and Liabilities Committee (ALCO) –** Assesses the impact of impairment losses on Zopa's regulatory capital adequacy and monitors the credit rating of treasury assets, and the status of intercompany loans, and considers any evidence which would require the recognition of impairment.

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

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

33.1.2 Measurement of ECL

The approach set out in this note applies to:

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

The determination of expected credit losses is complex and requires the use of models, as exposure varies with changes in market conditions, customer behaviour and macro-economic environment over time. The Group measures ECL by assessing Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). ECL is the product of these three components discounted to present value using an account-level effective interest rate as the discount rate.

Factor	Description
Probability of Default (PD)	The Group has developed PD models tailored to each product type to assess the likelihood of default within the next 12 months and over the lifetime of each loan or credit card account. The models calculate estimates of PD based upon the latest payment behaviour of the customer on the Zopa product, information from the credit reference agencies (CRAs) and product specific characteristics. The PD model also includes an estimate of the future macroeconomic effect.
Exposure at Default (EAD)	The Group has developed an EAD model for the credit cards product to assess the likely exposure at default. The model calculates estimates of EAD based upon the latest payment behaviour of the customer, the credit limit utilisation, information from the CRAs and product specific characteristics. For unsecured personal loans (UPL) and car finance loans, the EAD estimate is based on the outstanding balance of the account at observation and the contractual paydown schedule of the account taking into account any missed payments before default.
Loss Given Default (LGD)	The Group has developed LGD models tailored to each product type to assess the likely financial loss given an account defaults. The models calculate estimates of LGD based on historical data on observed recoveries against defaulted accounts or benchmark information obtained from third parties. The estimates include the expected benefit of debt sales. Adjustments to these estimates are made depending on the macroeconomic scenario.
Discount rate	The Group uses account-level effective interest rate which is calculated based on loan amount, interest and fees, expected repayments including pre-payments and term.

Forecast period

We estimate PD, EAD and LGD for the duration of the lifetime of the loan or credit card account. For UPL and car finance, the duration of the lifetime is determined by the length of the loan term. For credit cards, the duration of the lifetime is estimated to be eight years.

Forward-looking information
The Group uses forecasts on key macroeconomic indicators to estimate the macroeconomic effect on PD. The key indicators that are used are employment related metrics, household debt, income and inflation. The model used to estimate the macroeconomic effect is a component of the PD model and has been developed on historical data obtained from CRAs.

The Group uses four different macroeconomic scenarios to estimate the future macroeconomic effect, named scenarios 1 to 4. Scenario 1 is an upside scenario, scenario 2 is the baseline scenario and scenarios 3 and 4 are both downside scenarios. The macroeconomic scenarios are provided by an external, third-party used widely in the industry. The scenarios are updated on a quarterly basis.

33.1.3 Management judgements in measurement of ECL
As at 31 December 2022, the key management judgement related to a post model adjustment addressing the potential impact of the rising mortgage rates on Zopa's existing borrowers that are also mortgage holders. These borrowers might not be able to continue making full repayments of Zopa's loans. The post model adjustment increased the modelled ECLs by £3.2m. The post-model adjustment increased the modelled ECLs by £3.2m, based on peak base rate expectation of 4.5%.

Such post-model adjustment is most sensitive to interest rate. Refer to Note 33.1.8 for the sensitivity analysis.

The Group applies other post-model adjustments to account for the impact of scheduled changes to the UPL PD and LGD models, cards PD model and car finance PD model.

At the end of 2022, the value of post- model adjustments accounted for less than 8% of the total ECL allowance (2021: 7.2%).

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

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

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

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

Improvement in credit risk or cure
There is no cure period assumed for loans or credit card accounts showing evidence of improvement in credit risk. This means that any account that does not meet the SICR criteria, is assigned to Stage 1. Loans or credit card accounts that enter Stage 3 cannot cure.

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

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

33.1.7 Purchased or Credit-Impaired (POCI) loans
As part of the purchase of loans from retail investors in Zopa Limited's peer-to-peer platform in December 2021 and January 2022 (refer to note 34 for further detail), the Group purchased a portfolio of credit-impaired loans (POCI). Expected credit losses on a POCI portfolio are not measured using the general model under IFRS 9. Instead, impairment on a POCI portfolio is determined based on full lifetime ECL. The lifetime ECL on initial recognition is included in the estimated cash flows when calculating the credit-impaired effective interest rate. Thus, no loss allowance is recognised on initial recognition. Subsequently, the reported ECL allowance on POCI loans represents the change in lifetime ECL since the purchase date.

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

33.1.8 Multiple economic scenarios and scenario weightings

Baseline scenario

As mentioned above, the macroeconomic scenarios are provided by a third-party expert. The Baseline scenario (or Scenario 2) is aligned to the consensus of forecasts of key macroeconomic indicators of the UK economy. The unemployment rate is expected to peak at 4.8% in 2024. Unemployment rate is kept at a relatively low level due to how tight the labour market is at the moment. Inflation is expected to have peaked in Q4 2022 at 11%. The economy will be in recession in 2023 with GDP reducing by 0.85% in Q4 2023 (Y-o-Y change). The Bank of England (BoE) base rate is expected to peak at 4% in early 2023. The scenario weighting assigned to the Baseline scenario is 60%.

Outer scenarios

One upside scenario

Under the Upside scenario (or Scenario 1), the unemployment rate is expected to peak at 4.1% and inflation at 11% in Q4 2022 before returning to 2% by the end of 2023. The economy exits recession in Q1 2023 and the BoE base rate peaks at 3.75%. This could be driven by markets calming down and household savings accumulated over the last 2 years helping the economy exit recession. The scenario weighting assigned to the Upside scenario is 5%.

Two downside scenarios

Under the Downside 1 scenario (or Scenario 3), unemployment rate is expected to peak at 6% in 2024 and inflation at 11% in Q4 2022, but only decrease to 2% in 2026. The economy will be in recession in 2023 with GDP reducing by 1.95% in Q4 2023 (Y-o-Y change) and recovering by Q3 2024. The BoE base rate is expected to peak at 4.5%. The scenario weighting assigned to the Downside 1 scenario is 30%.

Under the Downside 2 scenario (or Scenario 4), unemployment rate is expected to peak at 8% in 2024 and inflation to peak at slightly higher than 11% in Q1 2023 and to remain above 10% for the whole of 2023, while only reducing to 2% in 2026. The economy will be in recession in 2023 with GDP reducing by 3.9% in Q4 2023 (Y-o-Y change) and recovering modestly in Q4 2024. The BoE base rate is expected to peak at 5%. The scenario weighting assigned to this scenario is 5%.

Key changes to scenarios in 2022

There are three key changes to the scenarios, namely:

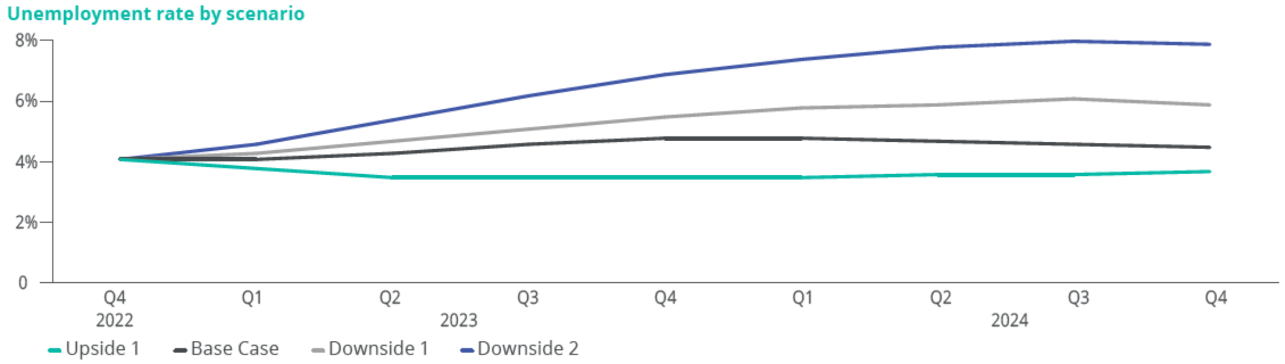
- the scenario weighting of the Downside 1 scenario increased from 15% to 30% and that of the Upside scenario decreased to 5% from 20%;
- the peak Unemployment Rate for the Baseline scenario increased from 4.1% to 4.8%; and
- Inflation increased in 2022 a lot more than expected and is currently expected to start decreasing in 2023.

These changes were driven by a deterioration in the macro-economic environment in the last 12 months.

Macroeconomic assumptions

The table below summarises the key macroeconomic indicators by scenario.

Detailed assumptions		Upside 1	Baseline	Downside 1	Downside 2
GDP	2023	1.4%	(0.8%)	(1.9%)	(3.9%)
	2024	2.4%	2.2%	1.4%	0.4%
Unemployment rate	2023	3.5%	4.8%	5.5%	6.9%
	2024	3.7%	4.5%	5.9%	7.9%
Debt to income	2023	50.4%	52.4%	53.7%	53.1%
	2024	50.0%	53.9%	56.0%	57.5%
Inflation	2023	1.9%	3.4%	6.0%	9.7%
	2024	2.0%	2.0%	2.0%	4.7%



Change over the forecast period			Upside 1	Base case	Downside 1	Downside 2
GDP	Five-year average increase/decrease	2023	11.6%	8.5%	7.5%	6.4%
	Cumulative growth/(fall) to peak/(trough)	2024	2.4%	2.2%	1.4%	0.4%
Unemployment rate	Five-year end period	2023	3.9%	4.1%	4.4%	4.8%
	Peak/(trough) at	2024	4.1%	4.8%	6.1%	8.0%
Debt to income	Five-year end period	2023	49.3%	57.8%	59.9%	63.9%
	Peak/(trough) at	2024	52.5%	57.8%	59.9%	63.9%
Claimant count	Five-year end period	2023	2.0%	2.0%	2.0%	2.0%
	Peak/(trough) at	2024	10.8%	10.8%	10.8%	11.2%

Scenario weightings

The table below shows the comparison of scenario weights.

	Upside 1	**Base case**	**Downside 1**	**Downside 2**
2022	5%	60%	30%	5%
2021	20%	60%	15%	5%

Sensitivity of ECL allowance

The table below shows the change in the ECL and proportion on assets in Stage2 for each of the macro economic scenarios. ECL is most sensitive to the changes in the unemployment rate.

	Weighted £000	**Upside 1 £000**	**Base case £000**	**Downside 1 £000**	**Downside 2 £000**
2022					
Exposure			**2,179,042**		
ECL	**141,815**	**126,978**	**137,085**	**150,688**	**163,148**
Proportion of assets in stage 2	**10.0%**	**7.4%**	**9.0%**	**10.5%**	**13.4%**
2021					
Exposure			1,261,160		
ECL	54,033	49,435	52,047	62,898	83,732
Proportion of assets in stage 2	4.8%	4.6%	5.0%	7.6%	13.6%

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

For the calculation of the sensitivity of ECL, the BoE base rate is assumed to be 6%, which is in line with the BoE stress testing (ICAAP) scenario published in October 2022 for the non-systemic banks.

	Expected Peak Rate	**Stressed Peak Rate**
2022		
Interest rate	**4.5%**	**6.0%**
Incremental ECL (£000)	**3,201**	**5,041**

33.1.9 Maximum and net exposure to credit risk

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

For On-balance sheet disclosures, the maximum exposure to credit risk is the carrying value after ECL allowance. For Loans and advances to customers, the gross balance excludes the hedge accounting fair value adjustment (Note 15). For Off-balance sheet disclosures, the maximum exposure to credit risk is the total amount of the financial commitment after ECL allowance.

	On-balance sheet assets			**Off-balance sheet assets**				
2022	**Gross balances £000**	**Loss allowance £000**	**Net balance £000**	**Gross balances £000**	**Loss allowance £000**	**Net balance £000**	**Non-cash collateral £000**	**Net exposure £000**
Cash and cash equivalents:								
– Central banks	**1,397,062**	**—**	**1,397,062**	**—**	**—**	**—**	**—**	**1,397,062**
– Other banks	**23,732**	**—**	**23,732**	**—**	**—**	**—**	**—**	**23,732**
– Debt securities	**13,386**	**—**	**13,386**	**—**	**—**	**—**	**—**	**13,386**
Financial assets at fair value through profit or loss:								
– Derivative financial instruments	**8,346**	**—**	**8,346**	**—**	**—**	**—**	**—**	**8,346**
Financial assets at amortised cost:								
– Loans and advances to customers	**2,080,853**	**(141,085)**	**1,939,768**	**98,189**	**(730)**	**97,459**	**137,089**	**1,900,138**
Other assets	**28,395**	**—**	**28,395**	**—**	**—**	**—**	**—**	**28,395**
Total	**3,551,774**	**(141,085)**	**3,410,689**	**98,189**	**(730)**	**97,459**	**137,089**	**3,371,059**

	On-balance sheet assets			Off-balance sheet assets				
2021	Gross balances £000	Loss allowance £000	Net balance £000	Gross balances £000	Loss allowance £000	Net balance £000	Non-cash collateral £000	Net exposure £000
Cash and cash equivalents:								
– Central banks	191,148	—	191,148	—	—	—	—	191,148
– Other banks	37,245	—	37,245	—	—	—	—	37,245
– Debt securities	16,244	—	16,244	—	—	—	—	16,244
Financial assets at fair value through profit or loss:								
–Derivative financial instruments	11	—	11	—	—	—	—	11
Financial assets at amortised cost:								
– Loans and advances to customers	1,226,487	(53,452)	1,173,035	34,673	(581)	34,092	56,199	1,150,928
Other assets	2,627	—	2,627	—	—	—	—	2,627
Total	1,473,762	(53,452)	1,420,310	34,673	(581)	34,092	56,199	1,398,203

33.1.10 Rating distribution

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

Zopa risk ratings (tiers) presented in the below table are based on the following PD bands: Tier 1 (<0.25%), Tier 2 (0.25 – 2.5%), Tier 3 (2.5 - 10%), Tier 4 (10 - <100%) and Tier 5 (Default). The PD reflects the probability to default in the next 12 months based on the IFRS 9 PD model. The 2021 table has been represented to align with 2022. In the prior year financial statements, the rating distribution was based on origination PD.

	Zopa risk ratings					
	Tier 1	**Tier 2**	**Tier 3**	**Tier 4**	**Tier 5**	**Total**
2022	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
On–balance sheet exposure						
Cash and cash equivalents:						
– Central banks						
Stage 1	**1,397,062**	**—**	**—**	**—**	**—**	**1,397,062**
– Other banks						
Stage 1	**23,732**	**—**	**—**	**—**	**—**	**23,732**
– Debt securities						
Stage 1	**13,386**	**—**	**—**	**—**	**—**	**13,386**
Financial assets at amortised cost:						
– Loans and advances to customers						
Stage 1	**473,671**	**820,141**	**420,168**	**80,876**	**—**	**1,794,856**
Stage 2	**523**	**9,920**	**39,413**	**166,651**	**—**	**216,507**
Stage 3	**—**	**—**	**—**	**—**	**65,747**	**65,747**
POCI	**304**	**253**	**206**	**1,022**	**1,958**	**3,743**
Off–balance sheet exposure						
Stage 1	**16,664**	**54,347**	**21,645**	**3,515**	**—**	**96,171**
Stage 2	**5**	**56**	**239**	**949**	**—**	**1,249**
Stage 3	**—**	**—**	**—**	**—**	**769**	**769**
Total exposure	**1,925,347**	**884,717**	**481,671**	**253,013**	**68,474**	**3,613,222**

	Zopa risk ratings					
	Tier 1	**Tier 2**	**Tier 3**	**Tier 4**	**Tier 5**	**Total**
2022	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
On–balance sheet ECL						
Cash and cash equivalents:						
– Central banks						
Stage 1	**—**	**—**	**—**	**—**	**—**	**—**
– Other banks						
Stage 1	**—**	**—**	**—**	**—**	**—**	**—**
– Debt securities						
Stage 1	**—**	**—**	**—**	**—**	**—**	**—**
Financial assets at amortised cost:						
– Loans and advances to customers						
Stage 1	**2,209**	**8,717**	**18,722**	**9,276**	**—**	**38,924**
Stage 2	**77**	**183**	**2,469**	**50,644**	**—**	**53,373**
Stage 3	**—**	**—**	**—**	**—**	**48,454**	**48,454**
POCI	**—**	**—**	**—**	**15**	**319**	**334**
Off–balance sheet ECL						
Stage 1	**13**	**249**	**248**	**170**	**—**	**680**
Stage 2	**—**	**—**	**1**	**49**	**—**	**50**
Stage 3	**—**	**—**	**—**	**—**	**—**	**—**
Total ECL	**2,299**	**9,149**	**21,440**	**60,154**	**48,773**	**141,815**

	Zopa risk ratings					
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Total
2021	£000	£000	£000	£000	£000	£000
On–balance sheet exposure						
Cash and cash equivalents:						
– Central banks						
Stage 1	191,148	—	—	—	—	191,148
– Other banks						
Stage 1	37,245	—	—	—	—	37,245
– Debt securities						
Stage 1	16,244	—	—	—	—	16,244
Financial assets at amortised cost:						
– Loans and advances to customers						
Stage 1	312,348	494,035	261,840	83,386	—	1,151,609
Stage 2	532	1,676	6,792	46,351	—	55,351
Stage 3	—	—	—	—	14,802	14,802
POCI	78	41	192	2,469	1,945	4,725
Off–balance sheet exposure						
Stage 1	2,211	15,660	13,889	2,221	—	33,981
Stage 2	—	1	38	572	—	611
Stage 3	—	—	—	—	81	81
Total exposure	559,806	511,413	282,751	134,999	16,828	1,505,797

	Zopa risk ratings					
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Total
2021	£000	£000	£000	£000	£000	£000
On–balance sheet ECL						
Cash and cash equivalents:						
– Central banks						
Stage 1	—	—	—	—	—	—
– Other banks						
Stage 1	—	—	—	—	—	—
– Debt securities						
Stage 1	—	—	—	—	—	—
Financial assets at amortised cost:						
– Loans and advances to customers						
Stage 1	1,526	5,471	10,728	9,359		27,084
Stage 2	13	32	467	15,202		15,714
Stage 3	—	—	—	—	10,654	10,654
– Amounts due from other group undertakings						
Stage 1	—	—	—	—	—	—
Off–balance sheet ECL						
Stage 1	80	254	246	—	—	580
Stage 2	—	—	1	—	—	1
Stage 3	—	—	—	—	—	—
Total ECL	1,619,	5,757	11,442	24,561	10,654	54,033

33.1.11 Credit performance

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

2022	**Stage 1 £000**	**Stage 2 £000**	**Stage 3 £000**	**POCI £000**	**Total £000**	**Gross write-offs £000**	**Loss allowance £000**
Loans and advances to customers	**1,794,856**	**216,507**	**65,747**	**3,743**	**2,080,853**	**7,449**	**141,085**

2021	Stage 1 £000	Stage 2 £000	Stage 3 £000	POCI £000	Total £000	Gross write-offs £000	Loss allowance £000
Loans and advances to customers	1,151,609	55,351	14,802	4,725	1,226,487	723	53,452

33.1.12 Credit quality

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

2022	**Stage 1 £000**	**Stage 2 £000**	**Stage 3 £000**	**POCI £000**	**Total £000**
On–balance sheet exposure	**1,794,856**	**216,507**	**65,747**	**3,743**	**2,080,853**
Off–balance sheet exposure	**96,171**	**1,249**	**769**	**—**	**98,189**
On–balance sheet ECL	**38,924**	**53,373**	**48,454**	**334**	**141,085**
Off–balance sheet ECL	**680**	**50**	**—**	**—**	**730**

2021	Stage 1 £000	Stage 2 £000	Stage 3 £000	POCI £000	Total £000
On–balance sheet exposure	1,151,609	55,351	14,802	4,725	1,226,487
Off–balance sheet exposure	33,981	611	81	—	34,673
On–balance sheet ECL	27,084	15,714	10,654	—	53,452
Off–balance sheet ECL	580	1	—	—	581

33.1.13 Movement in total exposures and the corresponding ECL

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

	Stage 1		Stage 2		Stage 3		POCI		Total	
2022	**Exposure £000**	**ECL £000**	**Exposure £000**	**ECL £000**	**Exposure £000**	**ECL £000**	**Exposure £000**	**ECL £000**	**Exposure £000**	**ECL £000**
As at 1 January 2022	**1,151,609**	**27,084**	**55,351**	**15,714**	**14,802**	**10,654**	**4,725**	**—**	**1,226,487**	**53,452**
Transfers from Stage 1 to Stage 2	**(97,288)**	**(3,873)**	**97,288**	**3,873**	**—**	**—**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**16,832**	**2,631**	**(16,832)**	**(2,631)**	**—**	**—**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(29,435)**	**(1,805)**	**(12,115)**	**(5,131)**	**41,550**	**6,936**	**—**		**—**	**—**
Net ECL remeasurement on stage transfer	**—**	**(2,384)**	**—**	**12,516**	**—**	**21,541**	**—**	**80**	**—**	**31,753**
Change in economic scenarios	**—**	**7,853**	**—**	**947**	**—**	**—**	**—**	**—**	**—**	**8,800**
Change in ECL methodology	**—**	**1,132**	**—**	**(1,481)**	**—**	**660**	**—**	**—**	**—**	**311**
New lending and purchased assets	**1,288,289**	**19,671**	**131,448**	**36,007**	**26,488**	**19,632**	**1,836**	**263**	**1,448,061**	**75,573**
Redemptions and repayments	**(521,049)**	**(10,327)**	**(32,466)**	**(2,797)**	**(5,568)**	**(1,317)**	**(1,077)**	**56**	**(560,160)**	**(14,385)**
Disposal of assets outside of credit risk appetite	**(14,102)**	**(1,058)**	**(6,167)**	**(3,644)**	**(7,462)**	**(5,589)**	**(1,673)**	**3**	**(29,404)**	**(10,288)**
Written off assets	**—**	**—**	**—**	**—**	**(4,063)**	**(4,063)**	**(68)**	**(68)**	**(4,131)**	**(4,131)**
As at 31 December 2022	**1,794,856**	**38,924**	**216,507**	**53,373**	**65,747**	**48,454**	**3,743**	**334**	**2,080,853**	**141,085**
Net movement in the period	**643,247**	**11,840**	**161,156**	**37,659**	**50,945**	**37,800**	**(982)**	**334**	**854,366**	**87,633**
ECL charge to the Income Statement	**—**	**11,840**	**—**	**37,659**	**—**	**37,800**	**—**	**334**	**—**	**87,633**
Write off charge	**—**	**—**	**—**	**—**	**—**	**4,063**	**—**	**68**	**—**	**4,131**
Add back of ECL on disposal of assets outside of credit risk appetite	**—**	**1,058**	**—**	**3,644**	**—**	**5,589**	**—**	**(3)**	**—**	**10,288**
Positive provision on POCI loans	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,367)**	**—**	**(1,367)**
Total ECL charge to the Income Statement	**—**	**12,898**	**—**	**41,303**	**—**	**47,452**	**—**	**(968)**	**—**	**100,685**

	Stage 1		Stage 2		Stage 3		POCI		Total	
	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL
2021	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
As at 1 January 2021	230,136	9,676	7,268	2,544	754	493	—	—	238,158	12,713
Transfers from Stage 1 to Stage 2	(11,105)	(629)	11,105	629	—	—	—	—	—	—
Transfers from Stage 2 to Stage 1	2,821	637	(2,821)	(637)	—	—	—	—	—	—
Transfers to Stage 3	(5,272)	(359)	(1,289)	(701)	6,561	1,060	—	—	—	—
Net ECL remeasurement on stage transfer	—	(299)	—	1,435	—	2,711	—	—	—	3,847
Change in economic scenarios	—	(1,211)	—	116	—	(13)	—	—	—	(1,108)
Change in ECL methodology	—	(1,746)	—	2,809	—	—	—	—	—	1,063
New lending and purchased assets	1,045,041	25,608	45,661	10,421	8,988	7,407	4,725	—	1,104,415	43,436
Redemptions and repayments	(109,280)	(4,533)	(4,009)	(501)	(632)	(162)	—	—	(113,921)	(5,196)
Disposal of assets outside of credit risk appetite	(732)	(60)	(564)	(401)	(146)	(119)	—	—	(1,442)	(580)
Written off assets	—	—	—	—	(723)	(723)	—	—	(723)	(723)
As at 31 December 2021	1,151,609	27,084	55,351	15,714	14,802	10,654	4,725	—	1,226,487	53,452
Net movement in the period	921,473	17,408	48,083	13,170	14,048	10,161	4,725	—	988,329	40,739
ECL charge to the Income Statement	—	17,408	—	13,170	—	10,161	—	—	—	40,739
Write off charge	—	—	—	—	—	723	—	—	—	723
Positive provision on POCI loans	—	—	—	—	—	—	—	(54)	—	(54)
Total ECL charge to the Income Statement	—	17,408	—	13,170	—	10,884	—	(54)	—	41,408

33.1.14 Collateral analysis

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

	Stage 1		**Stage 2**		**Stage 3**		**POCI**		**Total**	
	Exposure	**ECL**	**Exposure**	**ECL**	**Exposure**	**ECL**	**Exposure**	**ECL**	**Exposure**	**ECL**
2022	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Less than 50%	6,153	21	307	34	53	28	—	—	6,513	83
50% to 70%	21,541	92	1,223	112	107	55	—	—	22,871	259
70% to 80%	28,271	133	2,181	197	280	146	—	—	30,732	476
80% to 90%	54,536	295	4,771	456	770	414	48	1	60,125	1,166
90% to 100%	86,497	749	12,200	1,744	2,371	1,299	107	5	101,175	3,797
Greater than 100%	59,086	709	11,956	1,765	2,201	1,215	149	14	73,392	3,703
Total	256,084	1,999	32,638	4,308	5,782	3,157	304	20	294,808	9,484

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

33.1.15 Credit risk for other financial assets

Credit risk exists where the Group has acquired securities or placed cash deposits with other financial institutions as part of our treasury portfolio of assets. The Group considers the credit risk of treasury assets to be relatively low. No assets are held for speculative purposes or actively traded. Certain liquid assets are held as part of our liquid asset buffer. At 31 December 2022 and 2021, all treasury assets were in Stage 1. The table below sets out information about the credit quality of treasury financial assets.

	AAA		AA–		A+ to A–		Total	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000
Cash and cash equivalents:								
– Central banks	**—**	—	**1,397,062**	191,148	**—**	—	**1,397,062**	191,148
– Other banks	**—**	—	**—**	—	**23,732**	37,245	**23,732**	37,245
– Debt securities	**13,386**	16,244	**—**	—	**—**	—	**13,386**	16,244
Total	**13,386**	16,244	**1,397,062**	191,148	**23,732**	37,245	**1,434,180**	244,637

33.2 Market risk

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

33.2.1 Repricing analysis

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

2022	**Non-interest bearing £000**	**Up to 3 months £000**	**3–6 months £000**	**6–12 months £000**	**1–5 years £000**	**Over 5 years £000**	**Total £000**
Cash and cash equivalents:							
– Central banks	**—**	**1,397,062**	**—**	**—**	**—**	**—**	**1,397,062**
– Other banks	**—**	**23,732**	**—**	**—**	**—**	**—**	**23,732**
– Debt securities	**—**	**13,386**	**—**	**—**	**—**	**—**	**13,386**
Derivative financial assets:							
– Derivatives in accounting hedge relationships	**—**	**871**	**2,986**	**4,369**	**—**	**—**	**8,226**
– Derivatives in economic and not accounting hedge	**—**	**22**	**18**	**80**	**—**	**—**	**120**
Financial assets at amortised cost:							
– Loans and advances to customers	**—**	**129,305**	**10,361**	**45,949**	**1,731,255**	**21,094**	**1,937,964**
Other assets[1]	**28,395**	**—**	**—**	**—**	**—**	**—**	**28,395**
Total assets	**28,395**	**1,564,378**	**13,365**	**50,398**	**1,731,255**	**21,094**	**3,408,885**
Derivative financial liabilities:							
– Derivatives in accounting hedge relationships	**—**	**—**	**—**	**757**	**—**	**—**	**757**
– Warrant derivatives	**3,775**	**—**	**—**	**—**	**—**	**—**	**3,775**
Financial liabilities at amortised cost:							
– Deposits by customers	**—**	**1,851,181**	**390,631**	**400,069**	**280,137**	**827**	**2,922,845**
– Amounts due to banks	**8,773**	**171,301**	**—**	**—**	**—**	**—**	**180,074**
Other liabilities[2]	**5,368**	**—**	**—**	**—**	**—**	**—**	**5,368**
Total liabilities	**17,916**	**2,022,482**	**390,631**	**400,826**	**280,137**	**827**	**3,112,819**
Interest rate sensitivity gap	**10,479**	**(458,104)**	**(377,266)**	**(350,428)**	**1,451,118**	**20,267**	**296,066**
Cumulative gap	**10,479**	**(447,625)**	**(824,891)**	**(1,175,319)**	**275,799**	**296,066**	**296,066**

2021 (Restated*)	Non-interest bearing £000	Up to 3 months £000	3–6 months £000	6–12 months £000	1–5 years £000	Over 5 years £000	Total £000
Cash and cash equivalents:							
– Central banks	—	191,148	—	—	—	—	191,148
– Other banks	—	37,245	—	—	—	—	37,245
– Debt securities	—	16,244	—	—	—	—	16,244
Derivative financial assets:							
– Derivatives in economic and not accounting hedge	11	—	—	—	—	—	11
Financial assets at amortised cost:							
– Loans and advances to customers	—	44,969	5,591	32,770	1,085,911	3,794	1,173,035
Other assets[1]	2,627	—	—	—	—	—	2,627
Total assets	2,638	289,606	5,591	32,770	1,085,911	3,794	1,420,310
Derivative financial liabilities:							
– Warrant derivatives	6,205	—	—	—	—	—	6,205
Financial liabilities at amortised cost:							
– Deposits by customers	—	62,324	57,466	528,452	319,644	114	968,000
– Amounts due to banks	83	175,092	—	—	—	—	175,175
Other liabilities[2]	4,372	—	—	—	—	—	4,372
Total liabilities	10,660	237,416	57,466	528,452	319,644	114	1,153,752
Interest rate sensitivity gap	(8,022)	52,190	(51,875)	(495,682)	766,267	3,680	266,558
Cumulative gap	(8,022)	44,168	(7,707)	(503,389)	262,878	266,558	266,558

1. Other assets includes unallocated customer transactions in transit and refundable rental deposits.
2. Other liabilities includes unallocated customer transactions in transit, supplier balances and deferred P2P origination costs.

*Restated – see Note 35 for further information.

33.2.2 Sensitivity to interest yield curve

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

	2022 £000	2021 £000
2% shift up of the yield curve	**(5,700)**	723
2% shift down of the yield curve	**5,823**	(989)

33.3 Liquidity risk

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

33.3.1 Liquid assets

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

	2022 £000	2021 £000
Cash at central bank	**1,397,062**	191,148
Unencumbered cash and bank balances	**11,359**	34,565
Government money market fund	**13,386**	16,244
Total liquid assets	**1,421,807**	241,957
Add: encumbered cash and bank balances	**12,373**	2,680
Total cash and cash equivalents	**1,434,180**	244,637

33.3.2 Contractual maturity

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

2022	Carrying value £000	Repayable on demand £000	Up to 3 months £000	3–6 months £000	6–12 months £000	1–5 years £000	Over 5 years £000	No contractual maturity £000
Cash and cash equivalents:								
– Central banks	**1,397,062**	**1,397,062**	**—**	**—**	**—**	**—**	**—**	**—**
– Other banks	**23,732**	**23,732**	**—**	**—**	**—**	**—**	**—**	**—**
– Debt securities	**13,386**	**13,386**	**—**	**—**	**—**	**—**	**—**	**—**
Derivative financial assets:								
– Derivatives in accounting hedge relationships	**8,226**	**—**	**—**	**—**	**—**	**8,226**	**—**	**—**
– Derivatives in economic and not accounting hedge	**120**	**—**	**22**	**—**	**18**	**80**	**—**	**—**
Financial assets at amortised cost:								
– Loans and advances to customers	**1,937,964**	**790**	**4,110**	**10,361**	**45,949**	**1,731,255**	**21,094**	**124,405**
Other assets[1]	**28,395**	**—**	**28,395**	**—**	**—**	**—**	**—**	**—**
Total assets	**3,408,885**	**1,434,970**	**32,527**	**10,361**	**45,967**	**1,739,561**	**21,094**	**124,405**
Derivative financial liabilities:								
– Derivatives in accounting hedge relationships	**757**	**—**	**—**	**—**	**—**	**757**	**—**	**—**
– Warrant derivatives	**3,775**	**—**	**—**	**—**	**—**	**3,775**	**—**	**—**
Financial liabilities at amortised cost:								
– Deposits by customers	**2,922,845**	**822,433**	**1,028,748**	**390,631**	**400,069**	**280,137**	**827**	**—**
– Amounts due to banks	**180,074**	**7,465**	**22,609**	**—**	**—**	**150,000**	**—**	**—**
Other liabilities[2]	**5,368**	**—**	**5,368**	**—**	**—**	**—**	**—**	**—**
Total liabilities	**3,112,819**	**829,898**	**1,056,725**	**390,631**	**400,069**	**434,669**	**827**	**—**
Liquidity gap	**296,066**	**605,072**	**(1,024,198)**	**(380,270)**	**(354,102)**	**1,304,892**	**20,267**	**124,405**
Cumulative liquidity gap	**296,066**	**605,072**	**(419,126)**	**(799,396)**	**(1,153,498)**	**151,394**	**171,661**	**296,066**

2021 (Restated*)	Carrying value £000	Repayable on demand £000	Up to 3 months £000	3–6 months £000	6–12 months £000	1-5 years £000	Over 5 years £000	No contractual maturity £000
Cash and cash equivalents:								
– Central banks	191,148	191,148	—	—	—	—	—	—
– Other banks	37,245	37,245	—	—	—	—	—	—
– Debt securities	16,244	16,244	—	—	—	—	—	—
Financial assets at fair value through profit or loss:								
– Derivative financial instruments	11	—	8	3	—	—	—	—
Financial assets at amortised cost:								
– Loans and advances to customers	1,173,035	245	1,657	5,591	32,770	1,085,911	3,794	43,067
Other assets[1]	2,627	—	2,627	—	—	—	—	—
Total assets	1,420,310	244,882	4,292	5,594	32,770	1,085,911	3,794	43,067
Derivative financial liabilities								
– Warrant derivatives	6,205	—	—	—	—	6,205	—	—
Financial liabilities at amortised cost:								
– Deposits by customers	968,000	12,896	49,428	57,466	528,452	319,644	114	—
– Amounts due to banks	175,175	83	46	25,046	—	150,000	—	—
Other liabilities[2]	4,372	—	4,372	—	—	—	—	—
Total liabilities	1,153,752	12,979	53,846	82,512	528,452	475,849	114	—
Liquidity gap	266,558	231,903	(49,554)	(76,918)	(495,682)	610,062	3,680	43,067
Cumulative liquidity gap	266,558	231,903	182,349	105,431	(390,251)	219,811	223,377	266,444

1. Other assets includes unallocated customer transactions in transit and refundable rental deposits.
2. Other liabilities includes unallocated customer transactions in transit, supplier balances and deferred P2P origination costs.

*Restated – see Note 35 for further information.

33.4 Residual value risk

The principal risk arising from the Group's PCP car finance activities relates to the non-realisation of the full amount of the residual values ('RV'), set by the Group at the inception of its agreements. Under personal contract purchase agreements, the customers can exercise their right to return the vehicle to the Group at the end of the contract. In cases where the car value has a negative equity (i.e. lower than the outstanding balance at end of contract term) Zopa would sustain a financial loss, because the sale proceeds of the car would not be sufficient to cover the outstanding balance. The RV provision is raised in order to cover this type of financial loss.

On inception of the personal contract purchase, the Group uses latest industry data and determines the future expected car value to calculate Residual Value provision at origination.

The future expected value of the cars can change over time due to multiple factors such as demand-supply dynamics, industry trends etc. The Group manages this risk by periodically monitoring the RV estimates of the portfolio using industry data provided by 3rd party. Changes in future expected car value at revaluation are used to derive the updated residual value provision and the impairment charge is estimated based on the difference in the original and revised RV provision. Any required impairment is charged to the statement of comprehensive income.

As a result of the risk management guidelines detailed above, the Group has estimated its future RV exposure on contract purchase agreements:

	2022	2021
	£000	£000
Not later than one year	**—**	—
Later than one year and not later than five years	**21,044**	—
Later than five years	**—**	—
Total cash and cash equivalents	**21,044**	—

33.5 Capital risk and management

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

Capital resources as at the reporting date were as follows:

	2022	2021
		*Restated**
	£000	£000
Common Equity Tier 1 (CET 1)		
Called-up share capital	**1,479**	1,336
Share premium	**420,761**	363,132
Other reserves	**64,921**	64,569
Retained losses	**(187,487)**	(164,730)
Less: intangible assets	**(9,468)**	(9,346)
Total CET 1 capital	**290,206**	254,961
Total capital resources	**290,206**	254,961

*Restated – see Note 35 for further information.

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

34. Post balance sheet events

On 31 January 2023, the Group raised £75 million by issuing ordinary shares to existing shareholders which also includes partial exercise of B Warrants. The funding will be used to meet the capital requirements of the Group's growing balance sheet. As part of the subscription agreement, Set E warrant instruments have been issued. The Set E warrants will be classified as equity in the 2023 financial statements.

In 2022, the Group entered discussions around a potential acquisition of Rematch Credit Limited's assets, a point-of-sale lender in the UK. The first stage of this transaction was completed on 14 February 2023, with Zopa Group purchasing DivideBuy's technology platform for a net cash consideration of £1.1 million (£550,000 cash payment and £550,000 deferred consideration). The second stage of the transaction, which includes transfer of people as well as novation of key suppliers and merchants completed on 1 April 2023 for an additional net consideration of £2.2 million. Rematch Credit Limited provides interest free credit options, under the trade name DivideBuy, that allows consumers to spread the cost of their purchases from retail partners. The acquisition will enable the Group to accelerate its entry into the point of sale and embedded finance market. The fair value of net assets, total amount of goodwill and acquisition-related costs was not available when the financial statements were authorised for issue as the valuation of the assets acquired and liabilities assumed is still ongoing.

On 30 March 2023, Zopa Bank Limited acquired a £41 million loan portfolio consisting of performing unsecured personal loans. These loans were purchased from an institutional investor in the legacy peer-to-peer platform operated previously by Zopa Limited (now by Plata Finance Limited). The price paid for the portfolio was £38 million. On the same day, the Group injected £50 million into Zopa Bank Limited as an equity investment.

35. Correction of prior period error

In December 2022, it was discovered that historic share warrants previously issued by the Group were not appropriately disclosed in the prior financial statements and were incorrectly classified as equity rather than derivative financial liabilities. As a result, a retrospective assessment of all warrants has been performed to determine the appropriate classification, measurement, and disclosures. The historic error has been corrected in this year's financial statements by restating each of the affected financial statement line items for prior periods as follows:

Consolidated statement of financial position (extract)	31 December 2021	Increase/ (Decrease)	31 December 2021 (Restated)	31 December 2020	Increase/ (Decrease)	1 January 2021 (Restated)
	£000	£000	£000	£000	£000	£000
Derivative financial liabilities	—	6,205	6,205	97	5,020	5,117
Total liabilities	1,169,656	6,205	1,175,861	192,637	5,020	197,657
Share premium	370,856	(7,724)	363,132	195,604	(6,460)	189,144
Retained Losses	(166,249)	1,519	(164,730)	(124,747)	1,440	(123,307)
Total equity	270,512	(6,205)	264,307	134,074	(5,020)	129,054
Total liabilities and equity	1,440,168	—	1,440,168	326,711	—	326,711

Statement of profit or loss (extract)	31 December 2021	Increase/ (Decrease)	31 December 2021 (Restated)
		£000	£000
Changes in fair value of financial instruments measured at FVTPL	(30)	(6,713)	(6,743)
Total operating income	60,501	(6,713)	53,788
Net operating loss	(108)	(6,713)	(6,821)
Loss before tax	(41,599)	(6,713)	(48,312)
Loss after tax	(41,502)	(6,713)	(48,215)
Total comprehensive loss	(41,502)	(6,713)	(48,215)

Consolidated statement of cash flows (extract)	31 December 2021	Increase/ (Decrease)	31 December 2021 (Restated)
	£000	£000	£000
Cash flows from financing activities			
Share issued	180,236	(1,264)	178,972
Issuance of warrants	—	1,264	1,264
Net cash generated from financing activities	349,009	—	349,009

Company statement of financial position

As at 31 December

	Notes	2022	2021	1 January 2021
			Restated*	Restated*
		£000	£000	£000
Assets				
Cash and cash equivalents:				
– Other banks		**2,303**	2,785	1,400
– Debt securities		**—**	—	1
Financial assets at amortised cost:				
– Amounts due from other Group undertakings	6	**106**	17,002	27
Prepayments and accrued income		**287**	240	174
Investment in Subsidiaries	7	**427,221**	356,627	208,675
Other assets		**1,662**	2,688	188
Total assets		**431,579**	379,342	210,465
Liabilities				
Financial liabilities at fair value through profit or loss:				
– Derivative financial instruments		**3,775**	6,205	5,020
Financial liabilities at amortised cost:				
– Amounts due to other Group undertakings	6	**—**	70	3,160
Accruals		**392**	6,990	330
Other liabilities		**1**	417	18
Total liabilities		**4,168**	13,682	8,528
Equity				
Called-up share capital	8	**1,479**	1,336	912
Share premium	8	**420,761**	363,132	189,144
Other reserves	9	**70,230**	68,866	66,599
Retained losses		**(65,059)**	(67,674)	(54,718)
Total equity		**427,411**	365,660	201,937
Total equity and liabilities		**431,579**	379,342	210,465

*The comparative information is restated due to prior year adjustments. Refer to Note 15.

The accompanying accounting policies and notes on pages 77 to 84 are an integral part of the financial statements.

The financial statements were approved by the Board of Directors on 19 May 2023 and signed on its behalf by:

Jaidev Janardana
Chief Executive Officer

Steve Hulme
Chief Financial Officer

Company statement of changes in equity

For the year ended 31 December

	Notes	Called-up share capital £000	Share premium £000	Other reserves £000	Retained losses £000	Total equity £000
Balance as at 1 January 2021		912	195,604	66,599	(56,158)	206,957
Prior period adjustments	15	—	(6,460)	—	1,440	5,020
Restated total equity as at 1 January 2021		912	189,144	66,599	(54,718)	201,937
Total comprehensive loss		—	—	—	(19,748)	(19,748)
Shares issued	8	432	173,988	—	—	174,420
Partial exercise of warrants		—	—	—	6,792	6,792
Net share option movements	9	—	—	2,267	—	2,267
Other movements	9	(8)	—	—	—	(8)
Balance as at 31 December 2021 (restated)		1,336	363,132	68,866	(67,674)	365,660
Balance as at 1 January 2022 (restated)		**1,336**	**363,132**	**68,866**	**(67,674)**	**365,660**
Total comprehensive income		**—**	**—**	**—**	**2,615**	**2,615**
Shares issued	8	**143**	**57,629**	**—**	**—**	**57,772**
Net share option movements	9	**—**	**—**	**1,341**	**—**	**1,341**
Other movements	9	**—**	**—**	**23**	**—**	**23**
Balance as at 31 December 2022		**1,479**	**420,761**	**70,230**	**(65,059)**	**427,411**

*The comparative information is restated due to prior year adjustments. Refer to Note 15 for further details.

The accompanying accounting policies and notes on pages 77 to 84 are an integral part of the financial statements.

Company statement of cash flows

As at 31 December

	Notes	2022 £000	2021 Restated* £000
Reconciliation of loss before tax to net cash flows from operating activities:			
Profit/ (loss) before tax		**2,615**	(19,843)
Adjustments for:			
– Non-cash items	5	**(1,237)**	18,019
– Changes in operating assets and liabilities	5	**(6,095)**	4,589
– Tax paid		**—**	—
Net cash (used in)/ generated from operating activities		**(4,717)**	2,765
Cash flows from investing activities			
Investment in subsidiaries		**(72,000)**	(157,000)
Proceeds from disposal of a subsidiary net of costs to sell		**1,567**	—
Net cash used in investing activities		**(70,433)**	(157,000)
Cash flows from financing activities			
Shares issued	8	**60,172**	178,972
Issuance of warrants		**—**	1,264
Cost of shares issued	8	**(2,400)**	(4,552)
Change in non-trading amounts due to and from other Group undertakings	6	**16,896**	(20,065)
Net cash generated from financing activities		**74,668**	155,619
Net (decrease)/ increase in cash and cash equivalents		**(482)**	1,384
Cash and cash equivalents at start of year		**2,785**	1,401
Cash and cash equivalents at end of year		**2,303**	2,785
Loss before tax includes:			
Interest received		**791**	54
Interest paid		**—**	(32)

*The comparative information is restated due to prior year adjustments. Refer to Note 15.

The accompanying accounting policies and notes on pages 77 to 84 are an integral part of the financial statements.

Notes to the Company financial statements

1. Basis of preparation and significant accounting policies

Overview

This section sets out Zopa Group Limited's ('the Company') accounting policies that relate to its unconsolidated financial statements as a whole. Consolidated Zopa Group accounting policies have been applied consistently to the Company only financial statements of Zopa Group Limited. Where an accounting policy is specific to one note, the policy is described in the note to which it relates.

1.1 General information

The Company is a private limited company limited by shares incorporated in England & Wales and domiciled in the United Kingdom under the Companies Act 2006 (registered number 10624955). The registered office is at First Floor Cottons Centre, 47–49 Tooley Street, London, England, SE1 2QG. The Company is part of the Zopa Group (the 'Group'), but predominantly acts as a financial holding company for Zopa Bank Limited.

1.2 Basis of preparation

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

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

No individual statement of comprehensive income is presented for the Company, as permitted by Section 408 of the Companies Act 2006.

1.3 Going concern

The directors consider that it is appropriate to continue to adopt the going concern basis of accounting in preparing the parent company financial statements. In reaching this assessment, the directors have considered projections for the company's capital and funding position, statement of financial position (balance sheet), profitability, cash flows, as well as other principal risks disclosed in the strategic report. The Company's capital and liquidity plans, including alternative scenarios such as inflation remaining at similar or higher levels for longer than current expectations, and further increases to interest rates, have been reviewed by the directors. When preparing the forecasts, the company has reflected the economic repercussions of the war in Ukraine and the risks of further increases to energy prices. Directors also considered the key assumptions and uncertainties that feed into these plans alongside management actions and mitigants that are available. Under all scenarios considered the directors believe the Company to remain a going concern on the basis that it maintains sufficient resources to be able to continue to operate for the period of at least 12 months from the date of authorisation of these financial statements.

1.4 Functional and presentational currency

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

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

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

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

1.5 Segmental reporting

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

1.6 Cash flows statement

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

2. Independent auditors' fees

The auditor fees are included in the consolidated group audit fees detailed in note 8.

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

3. Directors' remuneration

The Company had no employees in 2022 (2021: nil). Directors are paid via other Group entities as detailed in note 7 to the consolidated financial statements.

4. Financial instruments

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

31 December 2022	**FVTPL £000**	**FVOCI £000**	**Amortised cost £000**	**Total £000**
Cash and balances with other banks	**—**	**—**	**2,303**	**2,303**
Amounts due from other Group undertakings	**—**	**—**	**106**	**106**
Other assets	**—**	**—**	**1,358**	**1,358**
Total financial assets	**—**	**—**	**3,767**	**3,767**
Derivatives financial liabilities	**3,775**	**—**	**—**	**3,775**
Total financial liabilities	**3,775**	**—**	**—**	**3,775**

31 December 2021 (Restated*)	FVTPL £000	FVOCI £000	Amortised cost £000	Total £000
Cash and balances with other banks	—	—	2,785	2,785
Amounts due from other Group undertakings	—	—	17,002	17,002
Total financial assets	—	—	19,787	19,787
Derivative financial liabilities	6,205	—	—	6,205
Amounts due to other Group undertakings	—	—	70	70
Other liabilities	—	—	417	417
Total financial liabilities	6,205	—	487	6,692

*The amounts disclosed are after the restatement for the correction of the error disclosed in Note 15.

In March 2020, the Group issued warrants to subscribe for shares in the capital of the Group. In December 2021, the Group entered into a contract that has created an obligation on the Group to issue share warrants in the event of certain events occurring within a period of 4 years from the signing of the contract. These contracts meet the definition of a derivative and have been recognised as financial liability measured at fair value through profit or loss. The fair values of these derivatives are measured using Monte Carlo simulation valuation model, with any gain or loss on revaluation recognised in the statement of comprehensive income within the changes in fair value of financial instruments measured at FVTPL.

The fair values of warrant derivatives are based on Monte Carlo simulations, using market inputs and management's projections about future events. They are classified as level 3 fair values in the fair value hierarchy due to the use of unobservable inputs. Refer to note 31 within the consolidated financial statements for the additional disclosures.

5. Cash flow information

5.1 Cash generated from operations

	Notes	**2022 £000**	2021 £000
Adjustments for non-cash items:			
– Impairment of investment in subsidiaries	7	**—**	11,315
– Gain on sale of investment in subsidiaries, net of contingent consideration	7	**1,180**	—
– Change in fair value through profit or loss		**(2,431)**	6,713
– Other non-cash items		**14**	(9)
Total adjustments for non-cash items		**(1,237)**	18,019
Changes in operating assets and liabilities:			
– Prepayments and accrued income		**(47)**	(68)
– Accruals		**(6,598)**	6,660
– Intercompany trading balances		**(70)**	—
– Other assets		**1,036**	(2,405)
– Other liabilities		**(416)**	402
Total changes in operating assets and liabilities		**(6,095)**	4,589

6. Amounts due to and from other Group undertakings

Intercompany balances are repayable on demand.

2022	**Income £000**	**Expenditure £000**	**Amounts due from related parties £000**	**Amounts due to related parties £000**
Zopa Bank Limited – trading balances	**378**	**—**	**—**	**—**
Zopa Bank Limited – intercompany loan	**784**	**—**	**106**	**—**
Total	**1,162**	**—**	**106**	**—**

All balances have been settled in full post year end.

2021	Income £000	Expenditure £000	Amounts due from related parties £000	Amounts due to related parties £000
Zopa Bank Limited – trading balances	265	524	—	70
Zopa Bank Limited – intercompany loan	53	—	17,000	—
Zopa Limited – trading balances	180	138	2	—
Zopa Limited – intercompany loan	—	32	—	—
Total	498	694	17,002	70

7. Investment in subsidiaries

Accounting policy & commentary

Investments in subsidiaries are initially recognised at cost. Investments are tested for impairment whenever events, or changes in circumstances, indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For the purposes of assessing impairment, assets are Grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or Groups of assets (cash-generating units). An impairment loss is recognised at the amount by which the asset's carrying amount exceeds its recoverable amount.

Throughout 2022 the Company had a 100% interest in the total ordinary share capital of Zopa Bank Limited, a trading company incorporated in the UK. The registered office for Zopa Bank Limited is 1st Floor, Cottons Centre, 47–49 Tooley Street, London, England, SE1 2QG. Individual financial statements for Zopa Bank Limited (company number 10627575) can be obtained from Companies House. All subsidiary undertakings are included in the consolidated financial statements.

Following an impairment in the Zopa Limited investment in subsidiary in 2020, an impairment review was completed in 2021. It was identified that the fair value less costs to sell exceeded the value in use valuation, and thus represents the recoverable amount. In 2021 the Company determined that an impairment of its investment in subsidiary, Zopa Limited, was necessary due to the carrying value exceeding the recoverable amount. The recoverable amount was deemed to be fair value less costs to sell, which were determined using the basis of the post year end sale of Zopa Limited.

	Zopa Bank £000	Zopa Limited £000	Total £000
Balance at 1 January 2021	195,024	13,651	208,675
Share purchase	157,000	—	157,000
Capital contribution for share-based payments	1,856	411	2,267
Impairment of investment in subsidiaries	—	(11,315)	(11,315)
Balance at 31 December 2021	353,880	2,747	356,627
Balance at 1 January 2022	**353,880**	**2,747**	**356,627**
Share purchase	**72,000**	**—**	**72,000**
Capital contribution for share-based payments	**1,341**	**—**	**1,341**
Disposal of investment in subsidiaries	**—**	**(2,747)**	**(2,747)**
Balance at 31 December 2022	**427,221**	**—**	**427,221**

On 10 February 2022, Zopa Group Limited sold Zopa Limited to Plata Holdings UK Limited, an affiliate of IAG Silverstripe Partners LLC, for a consideration of £3.1m. As of 31 December 2021, Zopa Limited was a 100% owned subsidiary of Zopa Group Limited and was consolidated into the Group financial statements. Due to the loss of control arising from the sale of the subsidiary, Zopa Limited was deconsolidated to the Group immediately after the sale.

Details of the sale of subsidiary

	2022 £000
Consideration received or receivable	
Cash	**1,751**
Fair value of contingent consideration	**1,365**
Total disposal consideration	**3,116**
Carrying value of investment in subsidiary	**(2,747)**
Costs to sell	**(184)**
Gain on sale before income tax	**185**
Income tax expense on gain	**—**
Gain on sale after income tax	**185**

The contingent consideration relates to expected cash inflows based on the terms of the sale contract. This primarily relates to the assets and liabilities on the Zopa Limited balance sheet at sale settling as expected.

8. Called-up share capital and share premium

Refer to note 25 within the consolidated financial statements, which reflects Zopa Group Limited's share capital and share premium.

9. Other reserves

	Share schemes £000	Merger reserve £000	Capital redemption reserve £000	Treasury shares £000	Total £000
Balance as at 1 January 2021	5,432	61,242	—	(75)	66,599
Share options	2,267	—	—	—	2,267
Net repurchases of own shares	—	—	—	(12)	(12)
Net movement in notional value of EMI loans	—	—	—	3	3
Capital restructuring	—	—	9	—	9
Balance as at 31 December 2021	7,699	61,242	9	(84)	68,866
Balance as at 1 January 2022	**7,699**	**61,242**	**9**	**(84)**	**68,866**
Share options	**1,341**	**—**	**—**	**—**	**1,341**
Net repurchases of own shares	**—**	**—**	**—**	**(16)**	**(16)**
Net movement in JSOP loans	**—**	**—**	**—**	**38**	**38**
Net movement in notional value of EMI loans	**—**	**—**	**—**	**1**	**1**
Capital restructuring	**—**	**—**	**—**	**—**	**—**
Balance as at 31 December 2022	**9,040**	**61,242**	**9**	**(61)**	**70,230**

10. Related parties

Key management personnel

In January 2022, one executive director exercised 100,000 options under the EMI loan arrangement. As at 31 December 2022, one executive director had an EMI loan outstanding for £150k. Additionally, two executive directors had JSOP loans for £46k. These loans were used solely to exercise share options and the shares issued are then subject to a call option until the loans are repaid. During the year ended 2022, one executive director sold 100,000 shares.

Other transactions with related parties

Related party transactions and balances in relation to the Company's subsidiaries can be found in note 6.

On 10 February 2022, Zopa Group Limited sold Zopa Limited to Plata Holdings UK Limited ("Plata"), an affiliate of IAG Silverstripe Partners LLC. This is disclosed in the below table.

2022	**Income £000**	**Expenditure £000**	**Amounts due from related parties £000**	**Amounts due to related parties £000**
Consideration for sale of Zopa Limited to Plata Holdings UK Limited	3,116	—	—	—
Deferred consideration receivable from Plata Holdings UK Limited	—	—	1,365	—

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

11. Fair value of financial instruments

2022	**Carrying value £000**	**Level 1 (Quoted market price) £000**	**Level 2 (using observable inputs) £000**	**Level 3 (significant unobservable inputs) £000**	**Total fair value £000**
Cash and balances with other banks	**2,303**	**2,303**	**—**	**—**	**2,303**
Amounts due from other Group undertakings	**106**	**—**	**—**	**106**	**106**
Other assets	**1,358**	**—**	**—**	**1,358**	**1,358**
Total financial assets	**3,767**	**2,303**	**—**	**1,464**	**3,767**
Derivatives financial liabilities	**3,775**	**—**	**—**	**3,775**	**3,775**
Total financial liabilities	**3,775**	**—**	**—**	**3,775**	**3,775**

2021 (Restated*)	Carrying value £000	Level 1 (Quoted market price) £000	Level 2 (using observable inputs) £000	Level 3 (significant unobservable inputs) £000	Total fair value £000
Cash and balances with other banks	2,785	2,785	—	—	2,785
Amounts due from other Group undertakings	17,002	—	—	17,002	17,002
Total financial assets	19,787	2,785	—	17,002	19,787
Derivatives financial liabilities	6,205	—	—	6,205	6,205
Amounts due to other Group undertakings	70	—	—	70	70
Other liabilities	417	—	—	417	417
Total financial liabilities	6,692	—	—	6,692	6,692

*The amounts disclosed are after the restatement for the correction of the error disclosed in Note 15.

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

- cash and balances with other banks – These represent either amounts with an initial maturity of less than three months or longer-term variable rate deposits placed with banks, where adjustments to fair value in respect of the credit risk of the counterparty are not considered necessary. Accordingly, the carrying value of the assets is considered to not be materially different from their fair value;
- other liabilities – These represent short term payables and as such, their carrying value is not considered to be materially different from their fair value;
- Derivative financial liabilities – These represent warrant derivatives which are valued using Monte Carlo simulations. The most significant inputs are the simulated share price of the Group and volatility inputs and are not based on observable market data.

Sensitivity analysis is performed on warrant derivatives as the valuation includes significant unobservable inputs (Level 3) to generate a range of reasonably possible alternative valuations and can be found in note 31 of the consolidated financial statements.

12. Ultimate controlling party

As at 31 December 2021, IAG Silverstripe Partners LLC (incorporated in the United States of America) was considered to be the ultimate parent and controlling party. However, due to the changes in ownership arising from the fundraise that was completed in February 2022, Zopa Group Limited has no ultimate parent and controlling party as at 31 December 2022.

13. Financial risk management

13.1 Credit risk

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

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

13.1.1 Maximum and net exposure to credit risk

	On-balance sheet assets			**Off-balance sheet assets**				
2022	**Gross balances £000**	**Loss allowance £000**	**Net balance £000**	**Gross balances £000**	**Loss allowance £000**	**Net balance £000**	**Non-cash collateral £000**	**Net exposure £000**
Cash and cash equivalents:								
– Other banks	**2,303**	**—**	**2,303**	**—**	**—**	**—**	**—**	**2,303**
Financial assets at amortised cost:								
– Amounts due from other Group undertakings	**106**	**—**	**106**	**—**	**—**	**—**	**—**	**106**
Total	**2,409**	**—**	**2,409**	**—**	**—**	**—**	**—**	**2,409**

	On-balance sheet assets			Off-balance sheet assets				
2021	Gross balances £000	Loss allowance £000	Net balance £000	Gross balances £000	Loss allowance £000	Net balance £000	Non-cash collateral £000	Net exposure £000
Cash and cash equivalents:								
– Other banks	2,785	—	2,785	—	—	—	—	2,785
Financial assets at amortised cost:								
– Amounts due from other Group undertakings	17,002	—	17,002	—	—	—	—	17,002
Total	19,787	—	19,787	—	—	—	—	19,787

13.2 Market risk

Market risk is the risk of a reduction in earnings, value or reserves caused by changes in the prices of financial instruments. The Company's market risk consists primarily of exposure to changes in interest rates and its own equity through the warrant derivatives. Interest rate risk is the risk that the net value of, or net income arising from, the firm's assets and liabilities is impacted as a result of changes to interest rates. The Company has no financial assets or liabilities that reference LIBOR. The only source of borrowing relates to inter-company loans from other Group undertakings.

13.3 Liquidity risk

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

13.3.1 Liquid assets

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

	2022 £000	2021 £000
Unencumbered cash and bank balances	**2,303**	2,785
Debt securities	**—**	—
Total liquid assets	**2,303**	2,785
Add: encumbered cash and bank balances	**—**	—
Total cash and cash equivalents	**2,303**	2,785

13.3.2 Contractual maturity

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

2022	**Carrying value £000**	**Repayable on demand £000**	**Up to 3 months £000**	**3-6 months £000**	**6–12 months £000**	**1-5 years £000**	**Over 5 years £000**
Cash and cash equivalents:							
– Other banks	**2,303**	**2,303**	**—**	**—**	**—**	**—**	**—**
Financial assets at amortised cost:							
– Amounts due from other Group undertakings	**106**	**—**	**106**	**—**	**—**	**—**	**—**
Total assets	**2,409**	**2,303**	**106**	**—**	**—**	**—**	**—**
Financial liabilities at fair value through profit or loss:							
– Derivative financial instruments	**3,775**	**—**	**—**	**—**	**—**	**3,775**	**—**
Financial liabilities at amortised cost:							
– Amounts due to other Group undertakings	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other liabilities[1]	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total liabilities	**3,775**	**—**	**—**	**—**	**—**	**3,775**	**—**
Liquidity gap	**(1,366)**	**2,303**	**106**	**—**	**—**	**(3,775)**	**—**
Cumulative liquidity gap	**(1,366)**	**2,303**	**2,409**	**2,409**	**2,409**	**(1,366)**	**(1,366)**

2021 (Restated*)	Carrying value £000	Repayable on demand £000	Up to 3 months £000	3-6 months £000	6–12 months £000	1-5 years £000	Over 5 years £000
Cash and cash equivalents:							
– Other banks	2,785	2,785	—	—	—	—	—
Financial assets at amortised cost:							
– Amounts due from other Group undertakings	17,002	2	—	—	—	17,000	—
Total assets	19,787	2,787	—	—	—	17,000	—
Financial liabilities at fair value through profit or loss:							
– Derivative financial instruments	6,205	—	—	—	—	6,205	—
Financial liabilities at amortised cost:							
– Amounts due to other Group undertakings	70	70	—	—	—	—	—
Other liabilities[1]	417	—	417	—	—	—	—
Total liabilities	6,692	70	417	—	—	6,205	—
Liquidity gap	13,095	2,717	(417)	—	—	10,795	—
Cumulative liquidity gap	13,095	2,717	2,300	2,300	2,300	13,095	13,095

*The amounts disclosed are after the restatement for the correction of the error disclosed in Note 15.

1. Other liabilities includes supplier balances.

13.4 Capital risk and management

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

Capital resources as at the reporting date were as follows:

	2022 £000	2021 *Restated** £000
Common Equity Tier 1 (CET 1):		
Called-up share capital	**1,479**	1,336
Share premium	**420,761**	363,132
Other reserves	**70,230**	68,866
Retained losses	**(65,059)**	(67,674)
Total CET 1 capital	**427,411**	365,660
Total capital resources	**427,411**	365,660

*The amounts disclosed are after the restatement for the correction of the error disclosed in Note 15.

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

14. Post balance sheet events

On 31 January 2023, the Group raised £75 million by issuing ordinary shares to existing shareholders. The funding will be used to meet the capital requirements of the Group's growing balance sheet.

In 2022, the Group entered discussions around a potential acquisition of Rematch Credit Limited's assets, a point-of-sale lender in the UK. The first stage of this transaction was completed on 14 February 2023, with Zopa Group purchasing DivideBuy's technology platform for a net cash consideration of £1.1 million (£550,000 cash payment and £550,000 deferred consideration). The second stage of the transaction, which includes transfer of people as well as novation of key suppliers and merchants, has completed on 1 April 2023 for an additional net consideration of £2.2 million. Rematch Credit Limited provides interest free credit options, under the trade name DivideBuy, that allows consumers to spread the cost of their purchases from retail partners. The acquisition will enable the Group to accelerate its entry into the point of sale and embedded finance market. The fair value of net assets, total amount of goodwill and acquisition-related costs was not available when the financial statements were authorised for issue as the valuation of the assets acquired and liabilities assumed is still ongoing.

On 30 March 2023, Zopa Bank Limited acquired a £41 million loan portfolio consisting of performing unsecured personal loans. These loans were purchased from an institutional investor in the legacy peer-to-peer platform operated previously by Zopa Limited (now by Plata Finance Limited). The price paid for the portfolio was £38 million. On the same day, the Group injected £50 million into Zopa Bank Limited as an equity investment.

15. Correction of prior period error

In December 2022, it was discovered that historic share warrants previously issued by the Group were not appropriately disclosed in the prior financial statements, were incorrectly classified as equity rather than derivative financial liabilities. As a result, a retrospective assessment of all warrants has been performed to determine the appropriate classification, measurement, and disclosures. The historic error has been corrected in this year's financial statements by restating each of the affected financial statement line items for prior periods as follows.

The error has been corrected by restating each of the affected financial statement line items for the prior period as follows:

Balance sheet (extract)	**31 December 2021 £000**	**Increase/ (Decrease) £000**	**31 December 2021 (Restated) £000**	**31 December 2020 £000**	**Increase/ (Decrease) £000**	**1 January 2021 (Restated) £000**
Derivative financial liabilities	—	6,205	6,205	—	5,020	5,020
Total liabilities	7,477	6,205	13,682	3,508	5,020	8,528
Share Premium	370,856	(7,724)	363,132	195,604	(6,460)	189,144
Retained Losses	(69,193)	1,519	(67,674)	(56,158)	1,440	(54,718)
Total equity	371,865	(6,205)	365,660	206,957	(5,020)	201,937
Total liabilities and equity	379,342	—	379,342	210,465	—	210,465

Consolidated statement of cash flows (extract)	**31 December 2021 £000**	**Increase/ (Decrease) £000**	**31 December 2021 (Restated) £000**
Cash flows from financing activities			
Share issued	180,236	(1,264)	178,972
Issuance of warrants	—	1,264	1,264
Net cash generated from financing activities	155,619	—	155,619

ADDITIONAL INFORMATION

Consolidated Zopa Group Alternative Performance Measures and Key Ratios (unaudited)

In the reporting of financial information, we use certain measures that are not required under IFRS, the Generally Accepted Accounting Principles (GAAP) under which we report. These measures are consistent with those used by management to assess underlying performance. In addition, a number of non-IFRS metrics are calculated which are commonly used within the banking industry. Together these represent a range of financial key performance indicators used to assess performance of the business.

Annualised revenue run rate

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

	2022	2021
	£m	£m
Total revenue in the month of December	**16.5**	9.5
Annualised revenue run rate (December x 12 months)	**198.0**	114.0

Cost of funds

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

		2022	2021
	Note	**£m**	£m
Interest on deposits from customers	2	**30.2**	5.2
Average deposits from customers		**1,740.0**	468.3
Cost of funds		**1.7%**	1.1%

Cost to income ratio

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

		2022	2021
	Notes	**£m**	£m
Operating expenses	5	**76.2**	60.6
Net interest and fee and commission income	2 & 3	**166.3**	62.8
Cost to income ratio		**45.8%**	96.6%

Cost of risk

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

		2022	2021
	Note	**£m**	£m
Expected credit loss allowance and similar charges	9	**100.6**	41.6
Average gross loan and advances to customers		**1,735.0**	525.2
Cost of risk		**5.80%**	7.92%

Loan to deposit ratio

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

		2022	2021
	Notes	**£m**	£m
Loans and advances to customers	15	**1,938.0**	1,173.0
Deposits from customers	22	**2,922.8**	968.0
Loan to deposit ratio		**0.7**	1.2

Net interest margin

Net interest income as a percentage of average gross interest-bearing assets. The average is calculated using monthly average balances.

		2022	2021
	Note	**£m**	£m
Net interest income	2	**167.0**	55.7
Average gross interest-bearing assets		**2,333.0**	657.2
Net interest margin		**7.2%**	8.5%

Total revenue

Total net interest income and fee and commission income.

	Notes	**2022**	2021
		£m	£m
Net interest income	2	**167.0**	55.7
Fee and commission income	3	**8.6**	14.8
Total revenue		**175.6**	70.5
Total revenue growth		**105.1**	41.4

GLOSSARY OF TERMS (UNAUDITED)

Term	Definition
Annualised revenue run rate	Annualised revenue run rate shows what our annual total revenue would be at December levels.
Average deposit per customer	Total deposits from customers at the balance sheet date, divided by the total number of depositors.
Common equity tier 1 ratio	Common Equity Tier 1 Capital divided by Risk-Weighted Assets.
Cost of funds	Interest expense on deposits from customers, as a percentage of average deposits from customers. The average is calculated using monthly average balances.
Cost of risk	Expected credit losses charge divided by average gross loans and advances to customers. The average is calculated using monthly average balances.
Cost to income ratio	Operating expenses as reported in the Statement of Comprehensive Income divided by net interest income plus net fee and commission income as reported in the Statement of Comprehensive Income.
Coverage ratio	Total expected credit losses allowance divided by Total Gross Loans & Advances to Customers.
Allowance for expected credit losses	Allowance for expected credit loss deducted from Loans & Advances to Customers.
Expected credit losses charge	Expected credit losses and other credit impairment charges (which includes write-offs and recoveries, net of collection costs but excluding debt sales) as reported in the Statement of Comprehensive Income.
Gross new lending (UPL and car finance loans)	Total new lending of unsecured personal loans and car finance loans during the financial year excluding loans acquired in December 2021.
Loan to deposit ratio	Net loans and advances to customers expressed as a percentage of total deposits from customers.
Loss after tax	Loss after tax as reported in the Statement of Comprehensive Income.
Loss before tax	Loss before tax as reported in the Statement of Comprehensive Income.
Net Fee and commission income	Net fee and commission income as reported in the Statement of Comprehensive Income.
Net interest income	Net interest income as reported in the Statement of Comprehensive Income.
Net interest margin (NIM)	Net interest income as a percentage of average gross interest-bearing assets. The average is calculated using monthly average balances.
Operating expenses	Operating expenses as reported in the Statement of Comprehensive Income.
Total deposits	Total deposits from customers as reported in the Statement of Financial Position.
Total equity	Total shareholders' equity as reported in the Statement of Financial Position.
Total loans & advances to customers	Total loans and advances to customers as reported in the Statement of Financial Position.
Total number of customers	Total customer numbers are defined as follows: • UPL & Car Finance: customer with a loan balance >£0 and their balance is not in default • Credit Cards: customers with an open credit card and their balance is not in default • Savings: customers with an open savings account • Borrowing Power & Tools: customers who are actively subscribed to Borrowing Power or have interacted with a Zopa tool in the last three months • App or Web: customers who have logged into the app or web in the last three months
Total regulatory capital	The amount and quality of capital Zopa Bank maintains to comply with the minimum capital requirements under the CRR. We also disclose a number of capital and liquidity metrics which are required by the PRA and FCA. The basis of calculation of those metrics is defined within the relevant legislation.
Total revenue	Total net interest income and fee and commission income.
Total revenue growth	Year-on-year change in total revenue.

FORWARD-LOOKING STATEMENTS

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

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