ZOPA

ZOPA BANK LIMITED
ANNUAL REPORT
AND ACCOUNTS 2022

What's in this report

Trustpilot ★★★★★

4.4 score based on 19k reviews as at 31 December 2022.

Award winning

Zopa awards in 2022:

AltFi – Bank of the Year: **Won**

Newsweek – Most Loved Companies
Placed #3 out of 100 firms

Moneynet – Banking Brand of the Year: **Won**

Savings Champion – Best New Savings Provider: **Won**

Savings Champion – Best Fixed Rate Bond Provider: **Won**

Savings Champion – Best Short-Term Fixed Rate Bond Provider: **Won**

Zopa awards so far in 2023:

Savings Champion – Award for Simple Savings: **Won**

Savings Champion – Best Short-Term Fixed Rate Bond Provider: **Won**

Moneyfacts Consumer Awards – App-only Savings Provider of the Year: **Won**

Who we are, and what our mission is

Getting a **fair deal as standard**

Managing money **is no sweat**

Going beyond 'good enough'

Why we exist

At Zopa, we are building Britain's best bank. Banks should deliver great outcomes for their customers and their shareholders. Through all our products and services, we aim to improve our customers' financial resilience and well-being. Customers will advocate for those banks that enable great outcomes for them.

Our mission

We also believe that Britain's best bank needs a profitable, sustainable business model. This will allow us to attract capital for further growth and innovation. That is why achieving and growing our profitability is also key for us and, ultimately, our customers.

How we do it

How do we look to create good outcomes for our customers? We keep three simple things at the heart of all our products and services: Value, Ease and Transparency.

Strategic report

What's in this section

Zopa Bank at a glance

Continued growth in all products

Gross new lending[1]

2022

£1.6bn

2021: £851m

Total customers

2022

868,000

2021: 515,000

Gross new lending in 2022 YoY growth

2022

91%

2021: 380% in 2021 YoY growth

Total customers YoY growth

2022

69%

2021: 92%

Total deposits

2022

£2.9bn

2021: £968m

Number of credit card customers

2022

348,000

2021: 198,500

With strong customer advocacy

89%

Active customers across all products

83

Overall net promoter score[2]

1. Gross new lending excludes any peer-to-peer loans acquired by Zopa Bank in December 2021 and January 2022.
2. Overall net promoter score as at 31 December 2022.

Zopa Bank at a glance continued

Delivering on our financial goals

Annualised revenue run-rate[1]

2022

£197m

2021: £110m

Total operating income

2022

£151m

2021: £66m

Total operating income YoY growth

2022

131%

2021: 213%

Net interest margin

2022

7.1%

2021: 8.6%

Loss before tax

2022

£26m

2021: £34m

Cost-to-income ratio

2022

45.8%

2021: 105.1%

1. Refer to alternative performance measures on page 159.

Our heritage

2005

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

2015

First mainstream lender to deploy machine learning models for credit decisioning

2016

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

2017

Zopa starts providing instant decisioning on digital aggregators

2019

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

2020

Zopa Bank obtains its **banking licence** and **launches car finance, credit cards and savings**, all on proprietary technology

2021

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

2022

Zopa launches Smart Saver, an innovative easy access and notice account product, allowing savers to boost their pots to a term and interest rate that works for them. This has brought in £1.9bn new deposits in its first year

Our products

An ecosystem built around meeting the borrowing, spending and saving needs of our customers to achieve their financial goals in the digital age.

Borrow

Unsecured Personal Loans (UPLs)

Car Finance

- Real and guaranteed rates
- Three minutes to complete an application

Save

Fixed Term Savings
Award-winning way to save

Smart Saver
Boost your way to smarter savings through easy access and notice pots

- Just six steps to apply
- Digital experience, allowing savers to boost their pots to a term and interest rate that works for them

Spend

Credit Cards

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

Be in control

The Zopa App

Rated 4.8 stars, the hub of Zopa

54% of customers maintain or improve their credit score

Chief Executive Officer's letter

2022 was our strongest year yet, combining growth, improving efficiency and making significant progress towards building the best bank in Britain.

Jaidev Janardana
Chief Executive Officer

Banking is an industry that has regularly disappointed two of its most important stakeholders: its customers and its shareholders. Our goal is to build the best bank in Britain. One that its customers love and one that delivers strong returns to its shareholders.

We began this journey in June 2020, with a focus on providing the best borrowing and saving products to people in the UK. 2022 represented a huge leap forward for us. We grew our total operating income by 131% to £151m and expanded our customer base to approximately 868,000, all while consistently maintaining our industry leadership position with a net promoter score (NPS) of 83. This growth has come hand in hand with increasing efficiency, thanks to our proprietary technology. In 2022, we reduced our cost-to-income ratio by 59 percentage points to 45.8%. As a result, we significantly reduced our statutory loss before tax to £26.0m (2021: £34.2m) and we reached profit before tax on an adjusted basis of £10.1m (2021: £11.7m loss).

Looking back

In just over two years as a fully operational bank, we've seen a lot: launched during a pandemic, followed by high inflation leading to the cost-of-living crisis, three prime ministers and as a result one of the most volatile economic environments our country has seen in living memory. Unsurprisingly, the impacts on people in the UK and our customers have been significant. And our proposition, built around fairly priced credit products and attractive saving returns delivered through a transparent and world-class digital experience, has never been more relevant.

1. Profit before tax on incurred loss basis. Refer to alternative performance measures on page 159.

Chief Executive Officer's letter continued

1. For savers, this represents a multiple of the annualised interest earned on a Zopa Smart Saver account (instant access) using the average Smart Saver deposit amount at year end compared to the average annualised interest earned on the same deposit amount across a sample of high street banks. For borrowers, the debt consolidation saving represents the average £ amount saved in 2022 over the life of the loan from a borrower consolidating their debt. A borrower can consolidate their debt across unsecured personal loans (including unsecured car loans) and credit cards. It does not include overdrafts or buy now, pay later products.

Looking back continued

In 2022, our savers earned on average 4.5x more interest at Zopa than they would have done at a high street bank. Likewise, our borrowers saved on average £601 when taking a debt consolidation loan[1].

As customers sought to improve their financial resilience by choosing our better options for their borrowing and saving needs, we grew our customer base by 69% to approximately 868,000. This growth continued to be fuelled primarily by organic channels, with 39% of new customers choosing Zopa through word of mouth or channels with no direct acquisition costs.

In savings, total money deposited with us by our customers exceeded £2.9bn, representing 202% year-on-year growth. The main engine of this growth was our innovative, award-winning Smart Saver product. By creating a hybrid easy access and notice account proposition, we provide customers with more flexibility for their savings. Within a single product, customers can create multiple pots that they can choose to leave as an easy access product or receive a boosted interest rate if they utilise a pot with a notice period.

In lending, we increased gross loans on balance sheet by 70%.

- We launched a new product-agnostic machine learning model, enabling us to improve model performance via enhanced credit decisioning.
- In car finance, we launched a personal contract purchase (PCP) product, doubling our target addressable market, and went live with several new car dealer groups to widen our distribution.
- In credit cards, we launched an innovative balance transfer product that encourages customers to consolidate and pay down their debt.

Our growth in 2022 was generated despite a tightening of our lending criteria. As a responsible lender, it's always been important for us that our borrowers find our loans and credit cards affordable. As the cost-of-living crisis intensified during 2022, we took multiple steps to ensure that our lending decisions take account of both the current and future impacts that high inflation and rising mortgage rates will have on our customers. Our sophisticated approach to credit risk management and proactive tightening has meant that credit performance has remained consistent with that observed by Zopa Limited (P2P) pre-pandemic (2018 and 2019). We continue to manage the business with the expectation of further worsening over 2023 as higher energy prices through the winter period will put more pressure on UK consumers.

Chief Executive Officer's letter continued

> "To all our Zopians, thank you for your hard work this year and for making Zopa such a uniquely positive place to work.

Being there for our customers, our people and communities

It's evident that 2022 was a challenging time for many in the UK, and the challenges of higher cost of living, higher mortgage rates and negative real income growth are expected to continue into 2023. Thus, it was even more important that our customers were able to get the information and help they needed to be on top of their finances. In addition to providing them with new and innovative products, we also invested in improving the support and information available to them. This included improving and growing popular features like Borrowing Power and the debt consolidation calculator. For customers in difficulty, we also provided digital self-serve channels for those who wanted to understand forbearance options and strengthened our ongoing partnerships with debt charities like StepChange.

In addition to our direct efforts, we felt that there was a real opportunity for the fintech industry to get together and do more for the wider community. With that, we launched the 2025 Fintech Pledge together with ClearScore, to drive 10 million positive financial actions by 2025. I would like to thank the 20-plus partners who have signed up, all with the same purpose: to improve consumers' financial resilience by 2025. Thanks to their efforts, customers have already achieved 1.5 million positive actions within three months of launch.

We believe that our people are our strongest competitive advantage. We've made significant investments in our people through the launch of a broader benefits proposition and cost-of-living support while pushing forward with our diversity and inclusion agenda. As a result, we were thrilled to receive multiple awards, including coming third in Newsweek's first-ever ranking of the Top 100 Most Loved Workplaces in the UK, confirming our position as a leading employer in the UK.

This represents an outstanding recognition of our collaborative and inclusive culture, built around Zopians being empowered to deliver their best work. To all our Zopians, thank you for your hard work this year and for making Zopa such a uniquely positive place to work.

Becoming Britain's best bank

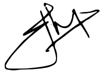
Last year reaffirmed that what we've built is loved by our customers, and that allowed us to exit the year in a stronger position.

We exist because customers need better solutions for managing their financial well-being, and there is plenty more to do. It's hard to predict how the UK economy will unfold in 2023 but it's certain that customers will need support more than ever. Given this challenging economic climate, our priority will remain supporting our customers.

We'll continue to innovate and make borrowing affordable and easier to manage, savings more rewarding and provide tools that can help customers to make better decisions for themselves for all their financial needs. We believe that this focus will remain very relevant for people in the UK and will continue to fuel our growth.

At the start of 2023, we successfully raised £75m of equity at the Zopa Group level, with £50m injected into the Bank, strengthening our capital position. I'm grateful to our existing shareholders for their continued support of our mission and strategy. In addition to continuing our organic growth, these funds will allow us to seize new opportunities to widen our offering and accelerate our journey to being Britain's best bank.

On behalf of the Board of Directors,



Jaidev Janardana
Chief Executive Officer

18 April 2023

Our business model

In 2022, we continued to offer products that **met the borrowing and saving** needs of our customers.

Those are the areas where we can have the most impact on peoples' finances and where we can make a real difference. Our business model relies on providing affordable, fairly priced credit in the form of unsecured personal loans, car finance and credit cards. These are funded primarily by retail savings that give competitive returns.

These markets are large: over £200bn in our lending segments and £1.74tn in savings in the UK. Together, these markets form a large part of the profit pool for incumbent banks, presenting a sizeable opportunity for us as we successfully win market share.

While we compete with many incumbents, as a new digital bank, we do things differently.

Our differentiation is underpinned by our three core capabilities: lending expertise, use of technology and data, and a customer-centric culture. Together, these capabilities create an experience that exceeds the expectations of everyday people in the UK.

How we do things differently

- Lending expertise
- Use of technology and data
- Customer-centric culture

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

Our business model continued

Lending expertise

Unlike other neobanks, we can leverage Zopa Group's long lending history and through-the-cycle data, going back as far as the 2007/08 financial crisis as well as the COVID-19 pandemic. By doing so, we can build and scale our balance sheet with confidence, building on Zopa Group's legacy of achieving strong positive returns on its loans. As a result, today we believe we're the market leader in data science, utilising machine learning models for credit decisioning. In 2022, the Bank launched a new product-agnostic machine learning model which has enabled improved performance and enhanced decisioning. This allows the Bank to make more nuanced decisions and price more accurately than other lenders, with predictable loss rates. Today, the Bank has established its presence across three different lending categories with over £1.6bn of gross new lending in 2022 alone.

Use of technology and data

Our proprietary technology has been developed in-house and follows a modular microservices-based architecture. This allows us to offer market-leading experiences in an efficient, scalable and resilient way. It also means we can plug-and-play into a wide range of partners to support our distribution and growth. Our technology architecture provides us with flexibility and control over our products and the end-to-end customer experience, allowing us to react quickly to changing customer needs. It also enables us to process 5.5m credit applications each month seamlessly.

Increasing automation while scaling our business using our technology and data allowed us to reduce our cost-to-income ratio by 59 percentage points to 45.8% while maintaining our overall net promoter score at 83.

Customer-centric culture

Our customer-centric culture is at the heart of the experience we provide. We always start with the customer by using insight to drive innovation and ensure the culture extends from product to servicing at every step of the journey.

For our borrowing products, consumer research shows that ease, certainty and speed are the most important factors to consumers when choosing credit. Therefore, all our borrowing products are built around these factors. In unsecured personal loans and credit cards, we provide instant decisioning with pre-approvals and real (guaranteed) rates, and in the case of credit cards, a pre-approved initial credit limit.

On the savings side, our award-winning Smart Saver, an innovative easy access and notice account product, is also built on customer insight. This allows savers to place their money into personalised pots, which can then be 'boosted' by converting a pot into a notice account to achieve higher interest at a term and frequency that works for the saver.

On the servicing side, we've won Bank of the Year (AltFi) in 2022 and Best Customer Service (Highly Commended by Moneyfacts Consumer Awards) in 2023. We're also rated 4.8/5 stars on Apple's app store and 4.4/5 stars on Trustpilot[1].

Our customer-centric culture is the core driver of our market share growth both in borrowing and saving products, while our average net promoter score of over 75 since bank launch shows that customers love the Zopa experience.

1. Trustpilot score is as of 31 December 2022.

Our business model in action

Customer-centric culture

Launch of Smart Saver

In 2022, Zopa launched Smart Saver, a new and innovative easy access and notice account product, built around the concept of personalised pots.

As with all our product launches, this one was no different and started with customer insight. Research showed that many savers were unaware of and under-utilised the notice account segment, despite being able to earn more interest from it. Most consumers were aware of easy access accounts and fixed-term savings accounts. We set out to create a narrative and product proposition that offered a seamless transition between the easy access and notice account segments in a way that savers could easily understand and operate. It also provided us with access to a much larger and more diversified savings market by offering notice accounts alongside our core product. From this, the concept behind Smart Saver was born.

Based on our usual factors of ease, certainty and speed, we wanted savers to have a digital native experience in the app that they could use to: a) apply quickly, b) have certainty over their interest rates, and c) was quick to deposit and withdraw through seamless integrations. We created personalised pots that savers could use for different purposes. A default pot is an easy access account which, if desired, can be ‘boosted’ to seven days, 31 days or 95 days’ notice to receive higher interest. Savers can then contribute to their various pots to reach their financial goals. We have observed that savers who use the boosted pots feature are stickier, as migrating their savings elsewhere would mean losing their personalised pots.

Following the initial launch in February 2022, Smart Saver grew rapidly to over 100,000 savers with £1.85bn in savings at the end of the year, holding an average of nearly £18,000 savings per customer. About £1bn of inflows came during a six-week period in August and September, highlighting the scalability and reliability of the platform we’ve built.

“Having launched in February, we attracted £1.85bn in savings by year end, with almost £1bn of that coming in a period of six consecutive weeks, demonstrating the scalability and resilience of our platform.”

Our strategy

We oriented our strategy and key initiatives across **four broad goals in 2022.**

Achieving profitable growth

In the last year, there has been a seismic shift within the fintech ecosystem towards focusing on profitability. Unlike others, our strategy has always ensured we never compromise on strong unit economics while growing our products and realising economies of scale. In 2022, we set strong foundations and expect to achieve full-year profitability in 2023.

Our customer base grew by 69% in 2022. We realised a net interest margin (NIM) of 7.1% driving an increase in total operating income of 131%. Our cost base only rose by 31%, demonstrating the economies of scale in our operating model. As a result, our loss after tax reduced by 24% to £26.0m, and on an adjusted basis we made £10.1m profit before tax[1].

Given the uncertain economic outlook and pressures on customers, maintaining strong credit resilience remains a very high priority. Our current capabilities across modelling and risk management will stand us in good stead here. Despite the uncertainty, we see opportunity for further product innovation and growth. We expect to augment both our borrowing and saving products, as well as expand into products that serve wider customer needs. And we expect to continue to generate increased efficiencies through scale and automation, further reducing our cost-to-income ratio.

Driving strong customer outcomes

We aim to help customers improve their financial health, and we measure their satisfaction through our overall net promoter score. Delivering strong customer outcomes has always been part of our philosophy. There has been increasing regulatory attention on this topic, and we see that as another reason to continue investing in this important area.

In 2022, we launched new and innovative products that help customers save on their credit costs or earn better returns on their savings. New products that were launched include Smart Saver, personal contract purchase in car finance, balance transfer in credit cards and the debt consolidation calculator in our app.

In the latter half of 2022, and as we move into 2023, we will be doing more to help customers through the cost-of-living crisis and support those who are struggling. We will also be expanding our measurement of customer outcomes as part of the Consumer Duty regulation implementation. We believe this will offer additional opportunities for us to improve the outcomes for our customers.

1. Refer to alternative performance measures on page 159.

Our strategy continued

Maintaining resilience

We recognise that as a bank, we play an important role in the lives of our customers. And as we grow in scale, both in terms of number of customers and number of product offerings, a failure in our ability to serve our customers can cause harm. Through 2022, we invested heavily in building our financial and operational resilience. On credit, proactive management has helped maintain our credit performance in line with that observed by the Zopa franchise pre-pandemic, despite a worsening external environment. On funding, we diversified our funding base through the launch of our Smart Saver product and continuing use of central bank schemes.

Improvements in change management helped us to reduce incidents by 41% while delivering 11% more change. We also scaled the delivery of our services through our outsourced partners, improving geographical resilience and flexibility. This in turn allowed our in-house team to focus on more complex issues.

In 2023, given the uncertain macroeconomic outlook, managing credit risk will be a big focus. We will manage the business assuming that, in 2023, the economy will have a bigger adverse impact on customers than, it had in 2022. Thus, we will remain prudent on our lending criteria and will be scaling our capability to offer forbearance options and managing arrears. Improving the resilience and safety of our technology will also be a focus, with increased investment in cyber security and increasing our levels of resilience.

Growing our talent and positive community impact

We will continue growing our talent to deliver on our mission. In 2022, we welcomed 277 new Zopians, and grew our talent base to 653 (not including outsourcing). We significantly invested in our people, providing new and enhanced employment benefits that compare favourably with those offered by other employers. As a response to the cost-of-living crisis, we increased our minimum salary to £27,000 per annum – 15.8% above the London Living Wage. In addition, we rewarded all Zopians earning below £50,000 per annum with a winter bonus payment of £500.

We've also made progress against our diversity and inclusion (D&I) agenda, with our gender balance now at 45% women (vs 41% at the end of 2021). Our overall D&I score last year was 80%, and we were nominated in the Glassdoor Top 25 Companies for D&I, ranked 14th, being the only financial services entrant on the list.

Our focus on talent, diversity and inclusion will continue in 2023, with more progress against employee engagement, our gender pay gap and our ethnic minority and female representation at all levels of the organisation.

We want to build Britain's best bank that is sustainable for our shareholders as well as for society and the environment. With that, in 2022, we formulated our ESG[1] strategy, and started the implementation with a focus on society – our customers, team and community. In September, together with our partner ClearScore, we launched the 2025 Fintech Pledge to drive 10 million positive financial actions by 2025 and we've already partnered with over 20 other companies. In 2023, our focus will be on progressing further with our ESG strategy, by onboarding more partners through the 2025 Fintech Pledge to help us hit 5 million positive actions by year end and evolving our approach to environment, to understand our wider carbon footprint better and forming a strategy to reduce this impact.

1. ESG – Environmental, Social and Governance.

Business review

Loans

Unsecured personal loans (UPLs)

Zopa Group has been providing personal loans since 2005 through its former peer-to-peer (P2P) subsidiary and since 2020 through Zopa Bank. As a result, we've developed a long history of through-the-cycle data to allow us to make quick, automated credit decisions. To date, together with Zopa Group, we've disbursed over £8bn in personal loans.

Throughout 2022, in response to the changing macro environment, rising and persistently high inflation, we made changes to our lending criteria to ensure that our lending was responsible and affordable to our customers. We also had to increase our loan pricing to protect the resilience of our assets against a higher funding costs and higher expected credit impairments.

Despite those changes, UPL volumes grew by 85% from last year to £1.4bn. We've been able to do this through continuing innovation in digital channels, improved acquisition through our own app and deep integrations with many market aggregators and partners.

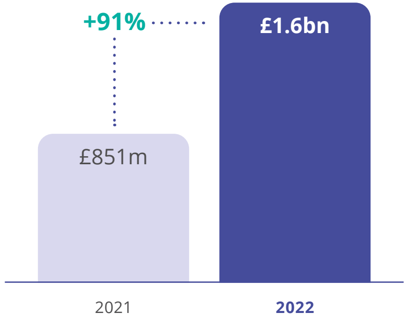
Consumers continue to choose Zopa because of our focus on ease, certainty and speed. A typical customer is a homeowner with an average age of 42 and an average income of £41,000. They choose us because we offer a quick application process that provides certainty of approval with real rates and rapid disbursals. We can do this because of our proprietary technology and sophisticated credit decisioning engine, which allows us to return accurate pricing instantly while maintaining low loss rates.

We also saw increased organic origination through Borrowing Power in our app and less reliance on digital market aggregators. Today, 16% of UPL originations are through our app (+4% on 2021), reducing our cost to acquire of those originations to near zero.

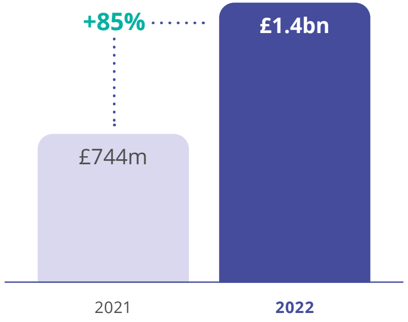
Car finance

Of all the markets we operate in, car finance is the least digitally enabled market and, as a result, we observe the strongest relative growth in this product. We applied our principles of ease, certainty and speed to a car finance market stuck in the past. Today, we're one of the only providers of an end-to-end digital journey. In car finance, customers find us through our direct-to-consumer model, either organically or through our partners such as brokers and dealers.

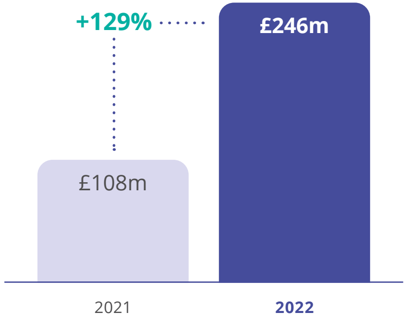
Gross new lending[1]



Unsecured personal loans



Car finance



1. Gross new lending excludes P2P retail loans acquired in December 2021 and January 2022.

Business review continued

Loans continued

Car finance continued

As our car finance product is secured, it experiences very low loss rates. On average, a typical customer is aged 37 with an average income of £36,000.

In 2022, we doubled our target addressable market by launching our personal contract purchase (PCP) product and have started to roll it out across our direct-to-consumer channels. As with personal loans, we made cutbacks in segments of our car finance lending criteria. But this was more than offset by the expansion of our distribution and product innovation. 2022 continued to be a standout year for growth, with £246m new originations in car finance, up from £108m the previous year. As a result, our market share of lending in the used car finance market has doubled compared to 2021.

To support future growth, in 2022 we launched a pilot on the direct-to-dealer channel. This channel represents 90% of the total used car finance market, presenting a large market opportunity and where we have the most opportunity to make a real difference in terms of customer outcomes. We have a significant pipeline in place with plans to scale further in 2023.

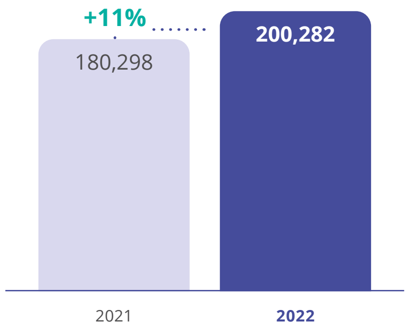
Credit cards

We launched our credit card product in 2020 to reach those customers who need credit but have been traditionally very poorly served by their incumbent providers. We've applied our technical sophistication to credit cards too – all our credit cards have transparent rates and credit limits when applying.

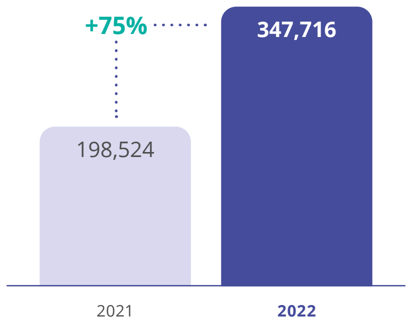
During 2022, we also launched a balance transfer product. Customers find our credit cards either in-app through Borrowing Power or through our distribution capabilities with aggregators. Like UPLs, the share of originations coming from our app has increased to 6.7%, more than double compared to the start of the year. Our credit card is aimed primarily at those in the builder segment, looking to build their credit score. On average, customers are aged 39 and earning £33,000.

In 2022, given the macro environment, we made the most significant changes on lending criteria for this population. We took the decision to tighten our credit policy, resulting in us originating 35% fewer cards than we would have done. As a result, we issued only a slightly higher number of credit cards compared to last year, with 200,000 new credit cards issued during 2022 (180,000 in 2021).

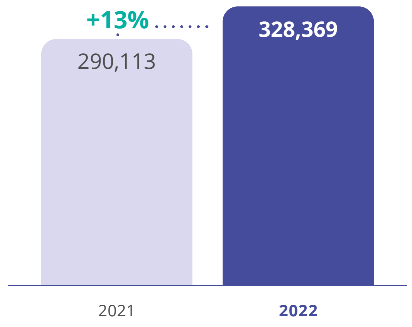
Number of new credit cards issued in the year



Number of credit card customers



Number of UPL and car finance customers



Business review continued

Savings

Smart Saver

2022 saw the public launch of our award-winning Smart Saver product, our innovative easy access and notice account product. It allows savers to create personalised pots, and 'boost' them into a notice account pot to generate more interest. Today, around 60% of balances are boosted and we observe these pots are significantly stickier, which helps to provide funding that is less rate sensitive. Since the launch of Smart Saver, most of our new inflows have come from this product, given its ease of access and lower cost of funding. Customers who find us are either existing Zopa customers or new to Zopa, typically through rate tables or other aggregators. On average, Smart Savers are aged 46 and have an above-average income.

In 2022, we raised surplus deposits at a lower cost of funding for our future needs, allowing us to raise £1.85bn in total savings over the year.

By year end, we had welcomed c.103,000 Smart Savers with average savings of nearly £18,000.

Fixed-term savings

Fixed-term savings remains a foundational part of our funding strategy. However, over 2022, we managed rates in line with our strategic objective of maintaining balances in this product consistent with previous years, as well as maintaining our re-save rate. In 2022, our fixed-term savings product attracted £461m of inflows.

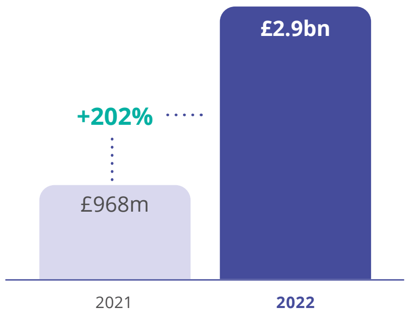
The customer profile of fixed-term savings is significantly older than that of Smart Saver, attracting an average deposit balance of more than £35,000.

On average, our customers are retirees aged 60 or others with significant savings to deploy. In 2022, we ended the year with £1bn in fixed-term savings and 29,000 savers, with one-year fixed being the most common term used.

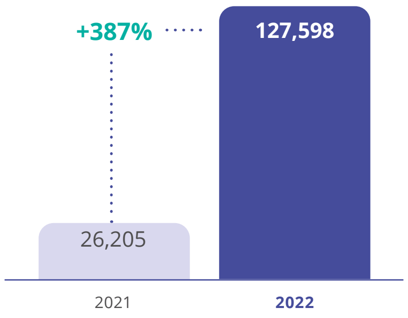
App

We continued to evolve our app over 2022. Today it acts as a central hub for Zopa's products, with over 73% of customers actively using the app. It provides useful financial management tools to support our customers. This includes Borrowing Power, a credit scoring tool helping consumers improve their credit by linking actionable behaviour to outcomes, including pre-approved, real rate offers for loans and credit cards. This has supported growth this year in our in-app organic origination rates. Our debt consolidation calculator also supports consumers with their debt management by showing savings that can be made through taking out a debt consolidation loan. We also significantly enhanced our self-serve tools in the app, allowing customers to get served in the most convenient way for them, and to support reductions in our cost to serve.

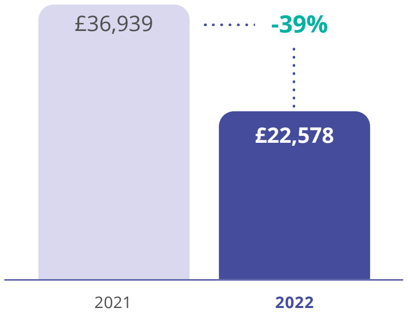
Deposits from customers



Number of savers



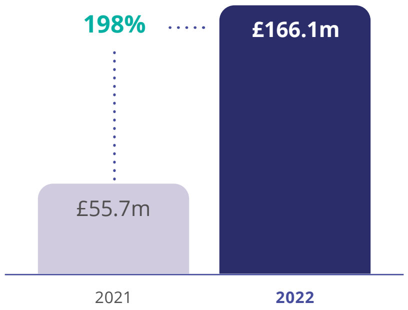
Average savings per customer



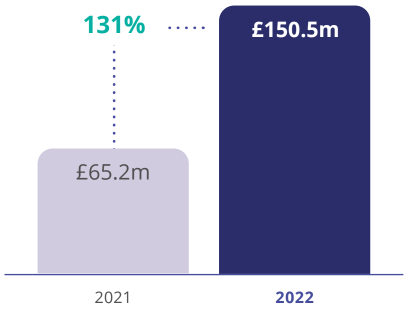
Key performance indicators

Income statement metrics

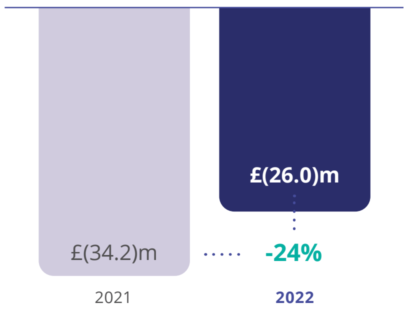
Net interest income



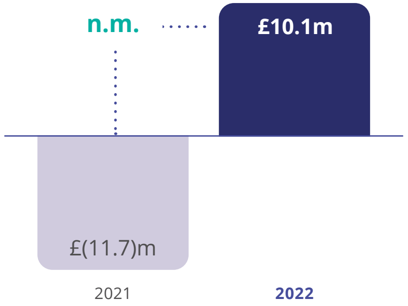
Total operating income



Statutory loss before tax

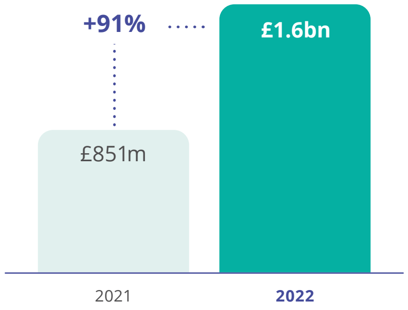


Profit/(loss) before tax on an adjusted basis[1]

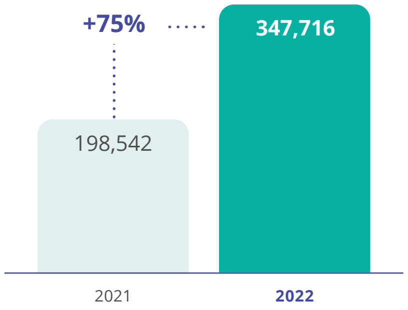


General performance metrics

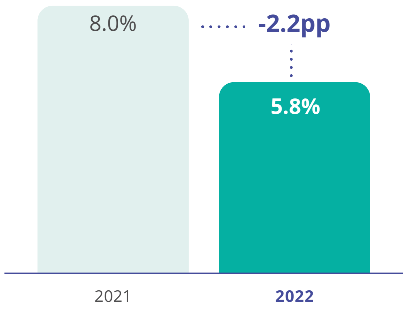
Loan originations



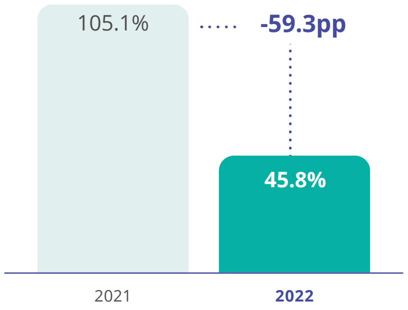
Credit card accounts



Cost of risk



Cost to income



1. Refer to the alternative performance measures section on page 159.

Financial review

In 2022, we increased total operating income by 131% to £151m, supported by £2.1bn gross loans on balance sheet and nearly tripling our retail deposit base to £2.9bn.

Steve Hulme
Chief Financial Officer

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

The economic environment ended 2022 worse than it started. In the last year, we've 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, we took steps during the year, as detailed further in this review, to prioritise credit resilience. This primarily meant tightening our 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.

1. APMs and key ratios are disclosed on page 159.

Financial review continued

> **Despite the poor macro backdrop, in 2022, we delivered our strongest financial performance to date.**

Our focus on mostly prime lending means that our borrowers are more resilient to economic challenges. We'll continue to leverage Zopa Group's 17 years of through-the-cycle lending experience to ensure that credit risk is disciplined and well managed.

Despite the poor macro backdrop, in 2022, we delivered our strongest financial performance to date. Robust customer growth allowed us to deliver over £1.6bn (2021: £851m) in gross new lending and grow to £2.1bn (2021: £1.2bn) gross loans on balance sheet. In turn, this meant we reached £151m (2021: £65m) total operating income, a 131% increase on last year. This increase, combined with strong cost management and efficiency initiatives, delivered a 59-percentage point reduction of our cost-to-income ratio. The rising rate environment meant that we had to be cognisant of our cost of funding. In early 2022, we launched our Smart Saver product, an easy access and notice account proposition to access lower cost funding.

For 2022 reporting, we have amended our methodology for the calculation of net interest margin percentage to align with industry norms and have provided a restated number for 2021. Our new methodology takes total net interest income as a percentage of average gross interest-bearing assets. This meant that in 2022 we delivered a net interest margin of 7.1% (2021: 8.6%). This was primarily driven by the Bank's changing balance sheet composition with the launch and success of our Smart Saver deposit product resulting in a much higher proportion of cash and other high quality liquid assets on the balance sheet than in 2021. These liquid assets earn a much lower return than our lending assets.

We ended the year with a loss after tax of £26.0m (2021: £34.2m loss), impacted by an increase in expected credit loss (ECL) charges. Under the IFRS 9 accounting standard the impacts of a growing balance sheet mostly made up of unsecured personal loans result in an up-front recognition of expected impairment for future losses. Throughout 2022, we had to update the economic scenarios and the corresponding scenario weights to reflect the worsening economic outlook. This meant we had to increase the ECL allowance on both our new originations and our back-book. Despite this, in 2022, our 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.

Our capital position remained strong throughout the year. In 2022, the Bank received £72m of equity investments from the capital raise completed by Zopa Group in 2021. In January 2023, Zopa Group successfully raised a further £75m, with £50m injected into the Bank as equity investment. Due to the worsening macroeconomic outlook over the year, the funding environment became more challenging.

This led to many peers in our sector and others to suffer from falling valuations globally as the investor community shifted attention from growth to profitability. As a result, we prioritised margin and returns in 2022, with slightly less emphasis on growth. This meant that despite the poor market conditions, we continued to be able to raise capital in 2023 and therefore, continue to operate with strong capital runway. If necessary, we can further extend it through adjustments to our growth profile.

Financial review continued

Total operating income

£151m

Up +131%

Gross loans

£2.1bn

Deposit growth

3x

We've set out a vision to become Britain's best bank over the long term. The financial performance over the last year means that we continue to be firmly on track to achieve that vision.

Our total operating income more than doubled to £151m

	2022	2021	Change
Interest income	**£200.0m**	£61.1m	+227%
Interest expense	**£33.9m**	£5.5m	+521%
Net interest income (NII)	**£166.1m**	£55.7m	+198%
Fee and commission income	**£8.1m**	£2.4m	+234%
Fee and commission expense	**£9.0m**	£3.3m	+176%
Net fee and commission expense	**£0.9m**	£0.8m	+8%
Total operating income	**£150.5m**	£65.2m	+131%
Net interest margin (NIM)	**7.1%**	8.6%	-150bps

Total operating income increased significantly to £151m, up 131%, due to the continued growth in customers choosing to use Zopa to meet their borrowing and saving needs. Our main income driver continues to be interest income through our lending products, with the majority from UPL.

Financial review continued

Overall interest income grew from £61.1m in 2021 to £200.0m in 2022, primarily from interest-bearing loan assets on our balance sheet, which grew from £1.2bn to £2.1bn gross loans. In 2022, we increased loan pricing due to the rising cost of funding environment. We also earn interest income through our treasury function on cash balances held at the Bank of England. That has been more significant this year due to the rising rate environment, but only represents 6.0% of total interest income.

The launch of Smart Saver led to a significant increase in our deposit base to £2.9bn (2021: £968m). Higher base rate and higher deposit balances led to higher interest expense. In 2023, we'll take further steps to mitigate against rises in base rate through additional saving partnerships and product development.

As mentioned in the introduction, we aligned our net interest margin definition with industry norms to be more complete, taking total net interest income as a percentage of average gross interest-bearing assets. We achieved a net interest margin of 7.1% in 2022, a 150bps decrease from 2021 of 8.6%. This was primarily driven by the Bank's changing balance sheet composition with the launch and success of our Smart Saver deposit product resulting in a much higher proportion of cash and other high quality liquid assets on the balance sheet than in 2021. These liquid assets earn a much lower return than our lending assets.

Our fee and commission income increased by 234% to £8.1m (2021: £2.4m). This increase was mainly due to credit card fees, which includes interchange, cash withdrawals at ATMs and late payment fees. Our fee and commission expense increased over 2022 due to increased costs associated with further growth in our customer base and the credit card lending.

Gross loans and advances grew to £2.1bn

Bank	2022	2021	Change
Gross loans and advances to customers	**£2.1bn**	£1.2bn	+70%
Cost of risk (%)	**5.8%**	8.0%	-220bps

In 2022, we saw a 70% increase in our gross loans on balance sheet to £2.1bn, reflective of the amount of gross new lending during the year. At year end, most of our gross loans on balance sheet were made up of UPL (78%), followed by car finance (14%). Despite credit cards being our biggest product by customers, it is the smallest product on our balance sheet (8%), given that the exposure to each customer is small.

More customers are choosing to save with us, tripling our deposit base to £2.9bn

Bank	2022	2021	Change
Deposits from customers	**£2.9bn**	£968m	+202%
Cost of funds	**1.7%**	1.1%	60bps
Loan-to-deposit ratio	**66%**	121%	-55%

In February 2022, we launched Smart Saver. This supported us in increasing customer deposit balances by 202% to £2.9bn. Of this, Smart Saver represented 64% of total balances and fixed-term savings represented 36%. The remainder of our funding mix is through low-cost funding schemes available from the Bank of England.

Our cost of funding rose by only 60bps, while the central bank base rate rose 325bps. During 2022, we mitigated successfully against rising funding costs through the launch of Smart Saver and raising a deposit surplus at lower funding costs. As a result, at the end of 2022, the loan-to-deposit ratio was 66% (2021: 121%).

Cost-to-income ratio fell by half, but operating expenses rose to support future growth

Bank	2022	2021	Change
Operating expenses	**£75.6m**	£57.6m	+31%
Net interest, fee and commission income	**£165.2m**	£54.8m	+201%
Cost-to-income ratio	**45.8%**	105.1%	-5,930bps

Our total operating expenses rose during the year by 31%, primarily to support growth. This rise in operating expenses is significantly below our rate of customer growth, demonstrating our ability to scale in a lean manner. However, like all businesses, we've faced some inflationary pressures and we have actively taken steps to reduce those pressures. Two major steps we've taken include being efficient in how we manage our supplier base as we scale, and ensuring we take a disciplined but balanced approach to pay awards for our people.

Last year, we welcomed 277 new Zopians to help build Britain's best bank. This investment provides the foundations for scale, whilst continuing to allow us to generate significant operating leverage as we grow. As a result, we ended the year with 653 total full-time equivalent employees (excluding outsourcing), up 22.5%, to support the 69% growth in our customer base.

In operations, we continued scaling our outsourcing operation in South Africa. This reduces the demand on our in-house team for more complex queries, putting us on a strong cost-to-serve trajectory.

Overall, our cost-to-income ratio continues to fall following a significant rise in our net interest and net fee and commission income, supported by a slower growing cost base in comparison. In 2023, we'll continue to focus on efficiency initiatives to lower our cost base, including more investment in our app, e-servicing, automation and other technology, along with strict control on headcount growth as we scale.

Expected credit losses increased due to a worsening economic environment as well as balance sheet growth

Bank	2022	2021	Change
ECLs charge (£m)	**£100.6m**	£41.8m	+141%
ECLs allowance (£m)	**£141.1m**	£53.4m	+164%
Coverage ratio (%) (including POCI loans)	**6.7%**	4.4%	+236bps
Cost of risk (%)	**5.8%**	8.0%	-220bps

The ECL charge for the year was £100.6m (2021: £41.8m), primarily due to 70% growth in our gross loans on balance sheet with impacts also from the worsening economic outlook. The economic outlook was factored into the multiple economic scenarios we use when predicting ECLs under IFRS 9, as well as the corresponding scenario weights. Nevertheless, our cost of risk, which reflects total impairment charges over average loan balances, reduced significantly, by 220bps compared to 2021 and standing at 5.8% for 2022. Our underlying book performance remains robust as our proactive tightening has meant that credit performance has remained consistent with that observed by the Zopa franchise pre-pandemic. In addition, as our portfolio matures, the impact of ECLs on our growing balance sheet will gradually moderate giving benefits to the cost of risk metric and to overall financial performance.

The allowance for ECL at year end was £141.1m (2021: £53.4m), 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.

Financial review continued

Our loss after tax significantly reduced in 2022 as we continued to grow and scale our operations

Bank	2022	2021	Change
Net operating income	**£74.9m**	£7.6m	+886%
Loss before tax	**£26.0m**	£34.2m	-24%
Profit/(loss) before tax on an adjusted basis (APM)[1]	**£10.1m**	(£11.7m)	n.m.
Loss after tax	**£26.0m**	£34.2m	-24%

Our 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.

Given our level of loan growth and the adverse macroeconomic environment, our profitability is materially impacted by the build-up of ECLs as we originate new assets. We're required to recognise ECLs immediately upon origination, while only recognising the associated interest income on those assets each month over their terms. Therefore, the more loans we originate, the more ECLs we must recognise, creating a less profitable profile.

The statutory loss before tax for 2022 was £26.0m (2021: £34.2m). The profit before tax on an adjusted basis is an alternative performance measure that excludes the IFRS 9 accounting estimate for expected credit losses, thus only reflecting the impact of incurred credit losses on the bank's profitability. Under this measure, we achieved £10.1m profit before tax in 2022 (2021: £11.7m loss)[1].

Our capital position remains robust, allowing us to operate without reliance on future capital injections

Bank	2022	2021	Change
Risk-weighted assets (RWAs)	**£1,665.1m**	£1,059.3m	+57%
Common equity tier 1 ratio (CET1)	**18%**	23%	-500bps
Leverage ratio	**14%**	20%	-600bps

Our capital position remained strong throughout the year. In 2022, the Bank received £72m of equity investments from the 2020 capital raise completed by Zopa Group in 2021. This investment was completed in three parts: £2m in January 2022, £50m in July 2022 and £20m in December 2022. In January 2023, Zopa Group successfully raised another £75m, with £50m injected into the Bank as equity investment in the same month.

Today, if we constrained growth, we would be capital accretive and able to operate on a capital self-sufficient basis. As such, our capital runway is determined by our expected growth profile. By reducing our originations growth, we can operate without relying on future capital injections if required.

At year end, our CET1 ratio stood at 18% (2021: 23%) despite growth in risk-weighted assets of 57%. The Bank measures capital resources in line with regulatory requirements. To manage capital resources appropriately, reports on the current and forecast level of capital are considered by the Bank Board, Bank Board Risk Committee and the Asset and Liability Committee. The internal capital adequacy assessment process is used to assess the adequacy and efficiency of our capital resources required to support our business model and the key stress assumptions that drive that requirement.

1. For information on how profit/loss before tax on an adjusted basis is calculated, please see the alternative performance measures section on page 159.

We retain a strong liquidity position

Bank	2022	2021	Change
High quality liquid assets (HQLA) to deposit ratio	**48%**	21%	+129%
Net stable funding ratio	**203%**	136%	+49%
Liquidity coverage ratio (LCR)	**829%**	9,360%	-91%

We maintained a strong liquidity position throughout the year against both regulatory metrics and our internal risk appetite. That included £1.4bn (2021: £0.2bn) in high quality liquid assets at year end, providing easy and same-day access to liquidity should it be required. We maintain and monitor internal liquidity metrics, including a minimum liquid assets-to-deposit ratio, as well as regulatory metrics including the LCR and net stable funding ratio. Liquidity metrics at the end of 2022 were significantly above the internal risk appetite, which is well above the regulatory minimums, following significant growth in retail deposit balances. The reduction in the LCR from 2021 reflects the greater stressed outflow rates associated with balances in our Smart Saver product. Most balances in Smart Saver are in notice pots, meaning that there's no risk of immediate outflow. The internal liquidity adequacy assessment process provides an assessment of the adequacy of our liquidity resources and of the key assumptions that drive that requirement.

As we've developed our Bank since its launch in 2020 we've consistently taken a conservative approach to our management of financial risks. All our depositors are retail savers and we have retained maximum individual deposit levels at the low end of market norms. Thus 99% of our deposits are insured as they are under the £85,000 FSCS limit. We don't hold any long-term investments on our balance sheet and as at the year-end £1.4bn (98%) of our liquid assets were held in the Bank of England reserve account with overnight availability.

In addition to the liquidity that we hold, we also maintain eligible collateral with the Bank of England, thus ensuring access to facilities such as the discount window facility and indexed long-term repo, which provides contingent funding for us, further enhancing our liquidity position.

Continuing our journey to become Britain's best bank

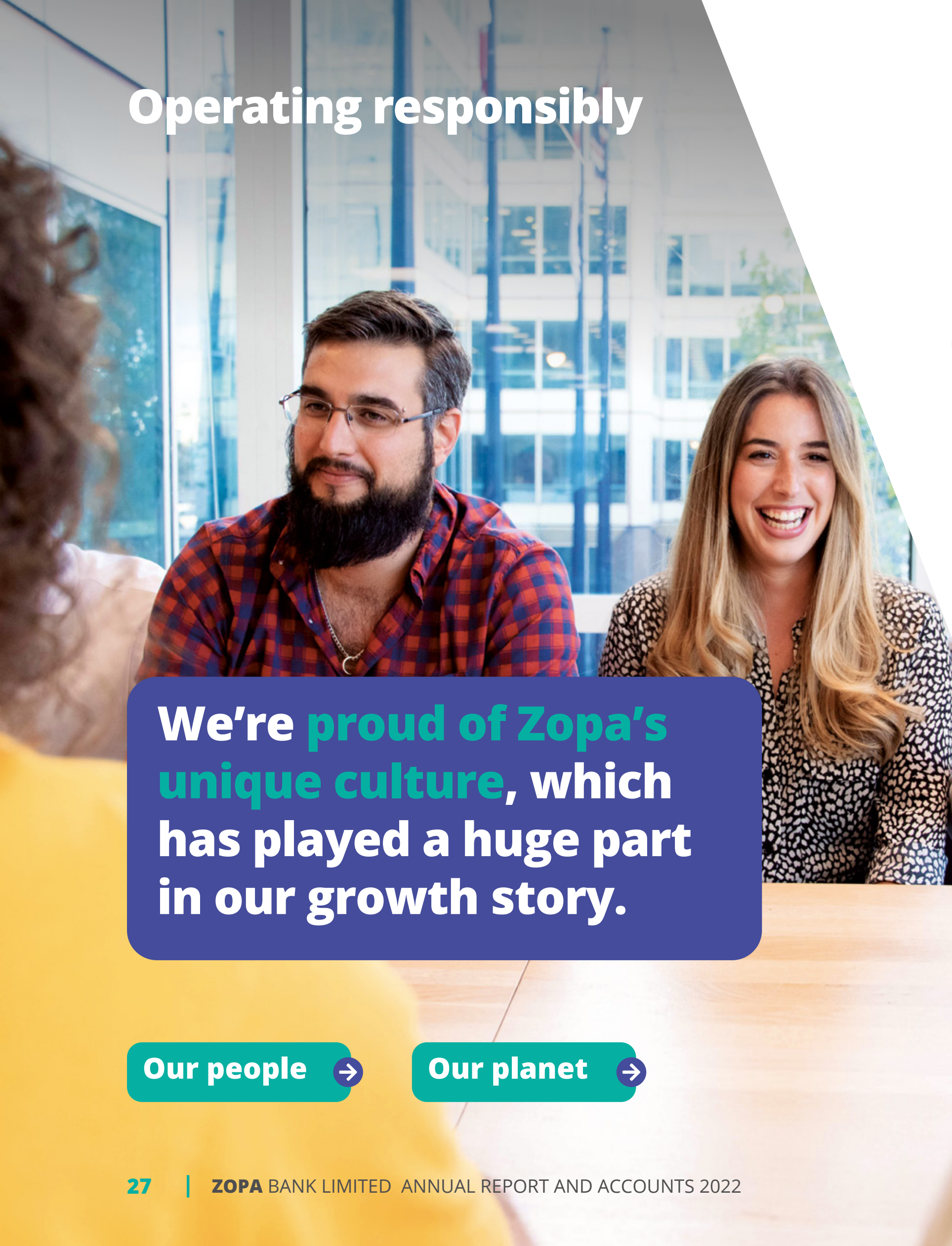
2022 saw us make great progress against our financial goals. In over two years since our Bank launch, we've built a balance sheet with £2.1bn in gross loans and have been able to deliver strong total operating income growth. The underlying mechanics of our business model are strong with our products exhibiting strong unit economics. At origination, we ensure our loan assets have sufficient stress multiples against rising future losses and increases in our cost of funding, creating a robust balance sheet.

The world around us is unstable and presents economic challenges for all banks. Since our Bank launch, we've seen a range of challenges from COVID-19 to the current economic situation and have performed strongly despite those headwinds. Our performance over 2022 is a source of confidence as we continue our journey towards becoming Britain's best bank.

On behalf of the Board of Directors,

Steve Hulme
Chief Financial Officer

18 April 2023



Operating responsibly

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

Our people

Our planet

We are proud to be part of a values-based organisation that offers consumers greater honesty and transparency, and our people the empowerment to work in the way that allows them to do their best work by being their best selves. We have made huge investments in our employee value proposition, benefits and workplace flexibility in 2022 that position us as a leading employer in the sector.

Supporting our team

We accelerate careers from within. Our people find purpose at Zopa

My career journey into technology has been accelerated by Zopa's sponsorship of a Code First Girls degree, where I developed the foundational skills that I needed to become a Junior Software Engineer. Receiving the right learning and support helped me feel far more confident to pursue tech-related roles independently. Before I even started the role, Zopa offered 1-on-1 mentoring with one of their developers who could address any questions I had about the position and offer suggestions for how to get prepared for it as I finished my training. I'm very appreciative for this opportunity and have been able to start assisting my wonderful team shortly after starting the role as a result!

Lindelani Moyo
Junior Software Engineer

Our people

Paying **15.8% above** London Living Wage

2025 FINTECH PLEDGE

Working abroad for **4 months**

glassdoor

4.5
out of 5 stars

2022 Winner
Hired's Top Employers Winning Tech Talent
Hired_

£500
winter bonus payment

UK's MOST LOVED WORKPLACES 2022
Newsweek
CERTIFIED BY Best Practice Institute

Supporting our team

We offer additional benefits that enable our teams to work in ways that allow them to meet both personal and professional goals.

When I first told my wife that I'd be entitled to 16 weeks' parental leave at Zopa, she actually burst into tears. Being able to spend intimate, dedicated time to grow and learn as a new family has been immeasurable.

I'm hugely grateful to Zopa for this opportunity. Having such a generous parental leave policy clearly shows the value that they place on their employees and their families. It also demonstrates a clear commitment to moving away from dated gender-based roles and expectations when it comes to raising a family.

Jaymin Shah
Head of Technology Risk and Compliance

Operating responsibly continued

Our people continued

Our people are connected by our purpose and a shared mission to create Britain's best bank that enables a fairer financial world through making every penny count for our customers. As customer champions, all that we do demonstrates integrity, honesty, trust and compassion. We grew our community by a further 22.5% in 2022, as we continued to deliver against our growth strategy. In delivering this headcount growth, we've invested in a series of carefully selected employee benefits, policies, and learning and development interventions to reinforce our unique culture and values as a leading employer in the sector. We've done this whilst helping our employees to navigate some of the most unprecedented cost-of-living challenges seen for decades.

These changes have resulted in our highest engagement score for five years at 74%, an increase of 4% against last year, a 7 percentage points reduction in voluntary attrition, and being awarded the 3rd Most Loved Workplace in the UK within Newsweek's first ranking.

We employ an exceptional team of passionate, talented people, reflective of the diverse nature of our customer base. Our people treat each other with mutual respect and do not tolerate discrimination under any circumstances.

We provide a fair and inclusive working environment that embraces individuality across race, ethnicity, faith, sexual orientation, class, disability and gender. We are proud that Glassdoor recently included Zopa in its list of 25 Companies Employees Say Are the Best for Diversity and Inclusion, ranked 14th, and the only financial services entrant on the list.

We believe that success is a collective outcome, that bold ideas can only come to life through teamwork and collaboration. We believe that time at Zopa offers rich experiences and relationships that make life better. People at Zopa are in it together, contributing to our inclusive community, and helping to bring diverse teams together. Zopa's community encompasses 45 nationalities, and 34% of our employees identify as ethnically diverse. This rich blend of cultures, faiths and experiences is a key part of Zopa's success story and fuels our environment of empathy, tolerance and compassion. Our high culture score of 79% illustrates the alignment of our people with our values.

79%
High culture score

9/10
People would recommend Zopa

40%+
Female employees

Our people continued

Our values

Customer champions

- ✔ We care about our customers and reflect that in everything we do
- ✔ We create positive long-term outcomes for our customers
- ✔ We disrupt the industry to drive a better deal for the customer

- ✖ We don’t make choices that cause customer harm
- ✖ We don’t create short-term wins at the expense of longer-term sustainability

In it together

- ✔ We win and lose together
- ✔ We grow and learn from our experiences
- ✔ We take ownership as individuals and as a wider community
- ✔ We celebrate success together and support each other in tough times

- ✖ We don’t hog the glory
- ✖ We don’t pass the blame or create scapegoats
- ✖ We don’t see ‘our roles’ or ‘our team’ in isolation of the Zopa community

Walk the talk

- ✔ We act with integrity and compassion
- ✔ We trust each other’s intentions
- ✔ We are brave enough to challenge each other
- ✔ We are open minded and see things from the other person’s point of view

- ✖ We don’t put self interest over doing the right thing
- ✖ We don’t use fear or negative emotions to get things done
- ✖ We don’t shy away from difficult conversations or situations

Win smarter

- ✔ We focus on the things that matter most to our mission
- ✔ We recruit and retain outstanding people
- ✔ We set ambitious goals and find the best way to make them happen

- ✖ We don’t compromise on people or performance
- ✖ We don’t think ‘ticking the boxes’ is good enough
- ✖ We don’t prize great strategy over great execution

Fearless choices

- ✔ We think big, boldly and flexibly to get to our goals
- ✔ We evaluate options with rigour – understanding risk and reward
- ✔ We embrace difficult, unexpected or unconventional choices where appropriate

- ✖ We don’t default to ‘the way it is always done’
- ✖ We don’t make ill-informed or reckless choices
- ✖ We don’t take risks in isolation or silos

Our people continued

We've announced a number of new employee benefits this year, including: continuing to offer employees workplace flexibility and announcing that employees can work abroad for up to 120 days per year; gender-neutral parental leave allowing all new parents up to 16 weeks of fully paid maternity, paternity or adoption leave; enhanced bereavement leave of up to 15 days for all loved ones and two days for pet bereavement; implementing a healthcare cashback plan, Medicash; and allowing Zopians to sell back up to five days of annual leave. We're also in the process of launching menopause care, and we're piloting flexible bank holidays so that Zopians can work a religious bank holiday, like Christmas, and exchange it for a different day off.

We're proud that 9 out of 10 of our people would recommend Zopa as a great place to work and that we have a Glassdoor rating of 4.5.

In September, Zopa announced that it was increasing its minimum salary to £27,000 per annum – 15.8% above the newly increased London Living Wage. In addition, all Zopians earning under £50,000 per annum have received a winter bonus payment of £500. This decision reaffirms our unwavering commitment to our people's well-being and to mitigating the impacts of this unprecedented cost-of-living crisis among those who may feel it the most.

Our people are bold and brave, never still, and constantly exploring ways to improve our products and processes. We're driven to aim high in all that we do and to reach our personal best. We thrive through personal development opportunities and accelerate career growth from within. We are proud that 13.5% of our community (78 Zopians) have achieved promotion this year through accelerated development, with a further 4% of Zopians benefiting from a mentoring partnership (28 Zopians). In 2022, we launched the Zopa Leadership Academy to support individual career development in the transition from individual contributor to leader and strengthen the quality of our people experience.

Zopa Bank achieved 45% female representation in 2022, and as part our Diversity, Equality and Inclusion Charter commitments, we've pledged to maintain, or better, this representation level by the end of 2023.

Our people continued

We aim to do this through:

- **Building a talent pipeline:**
  We already decode job ads to remove gender bias and are focused on ensuring gender diverse candidate lists and interview panels, including training for all interviewers on how to identify and mitigate against gender bias. We're working at a grassroots level with organisations such as Code First Girls to create a new generation of female talent and while this is a long-term undertaking, we strongly feel that a systemic approach is needed to create a diverse pool of talent who will be the tech leaders of the future.
- **Career acceleration:**
  In 2022, we launched the Zopa Leadership Academy to support individual career development in the transition from individual contributor to leader. We're also in the process of rolling out consistent reward and succession planning methodologies to ensure that we're being transparent, fair and equitable in pay decision-making, and to enable more targeted career development interventions.
- **Removing potential bias:**
  We've invested in stronger processes to ensure that potential bias is removed from processes such as pay decisions and promotions. In our latest review cycle, of the population who received a pay increase, 50% were female compared to a Zopa company representation of 46%, and 31% were from a minority ethnic group compared to a Zopa company representation of 27%.

In 2022 we invested in a number of initiatives to address our gender pay gap, including:

- delivery of a Company-wide exercise to level roles across Zopa facilitating benchmarking across the organisation;
- raising the minimum Zopa Bank salary to £27,000 in September 2022;
- promoting 14% of employees across the organisation in the 12 months to March 2023; and
- introducing 16 weeks of fully paid new parental leave to all new parents to target a longer-term reduction in the gender pay gap, which our research shows is driven in part by the longer period of absence women have traditionally taken to care for children through maternity leave.

Whilst we have succeeded in closing the mean pay gap by 1% (to 25.5%), the median pay gap widened by 0.4% (to 36.5%) against 2021 reporting. Our results are largely explained by the structure of our business, against which we report as one single community. Whilst we have increased female representation by 6% in 2022 (from 41% to 47%), the majority of women perform roles with a lower market value than men. We recognise that we must do more to increase the proportion of women earning at the highest levels. Achieving significant improvement will take time as we continue our efforts to secure female talent pipeline at senior levels in functions such as Tech and Product, by accelerating career development across the board, with a special focus on diverse groups, and increasing female mentoring.

For 2023, Zopa is committed to achieving a two-percentage point decrease in our median gender pay gap to 34.5%.

Our planet

We work for the benefit of our communities and the broader society.

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 Bank 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 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 Bank's 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.

Our planet continued

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 Bank 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 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 (tCO_2e) 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 Zopa 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; and
- 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

Stakeholder engagement

s.172 disclosure

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

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

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

1 Identify

We identify our stakeholders based on mutual influence and impact.

2 Assess

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

3 Engage

We engage with our stakeholders to understand their views and needs, and what matters to them.

4 Review

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

Stakeholder engagement continued

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. The statement is available on our website at www.zopa.com/modern-slavery.

Our stakeholders

The Bank engaged with key stakeholders throughout the 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 Bank, financial performance and plan, market dynamics, regulatory areas of focus, succession planning, diversity and engagement with other stakeholders.

Our shareholders materiality matrix

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

Stakeholder engagement continued

Our shareholders continued

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

Stakeholder engagement continued

Our employees

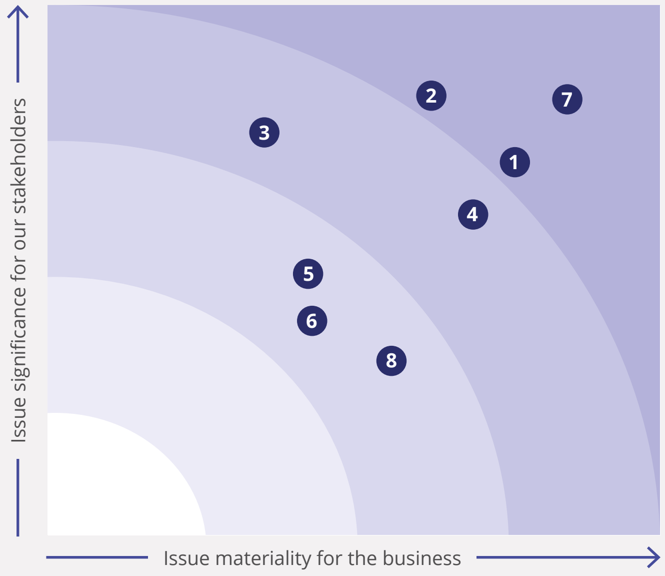
Our people are at the heart of our success, and we strive to serve their needs in all that we do. We're proud of our unique culture, which is fuelled by purpose, drive, empowerment and collaboration. The Board is committed to reinforcing, recognising and rewarding this culture throughout the governance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

Our employees materiality matrix



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

Stakeholder engagement continued

Our employees continued

We're committed to achieving 44% of senior management roles being held by women by mid-2023.

The open, honest and transparent dialogue we have with our people is a key feature of working at Zopa. We embrace the potential of each individual and strive to 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.	1 Gender pay gap 2 Fair remuneration 3 Flexible working 4 Well-being 5 Sense of belonging 6 Working hours 7 Diversity, inclusion and equality 8 Learning and development	For example, the Board evaluated results relating to the employee engagement surveys and management's plans for addressing areas requiring improvement. The Board evaluated the results on gender pay gap and diversity, inclusion and equality, and how management plans to close those gaps.

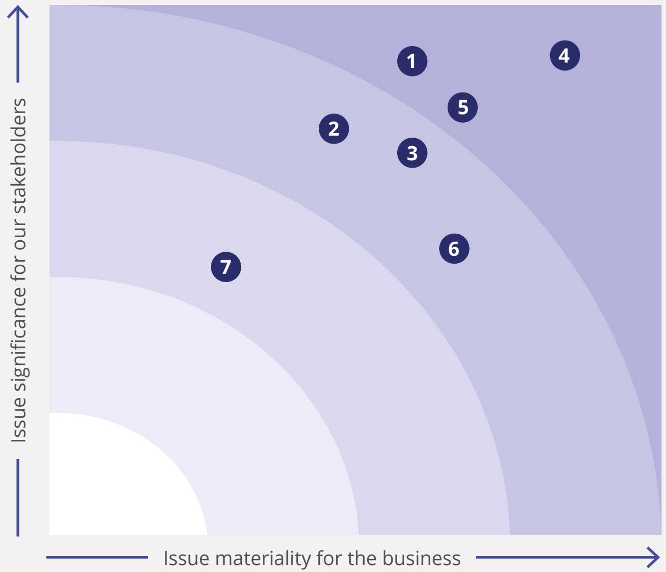
Stakeholder engagement continued

Our customers

At Zopa, we aim to put the customer at the heart of our decision-making. 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 2025 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.

Our customers materiality matrix



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

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 across the full customer lifecycle, and we continue to grow the number of customers who are looking to build a deeper relationship with Zopa.

The Board is 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 engagement continued

Our customers continued

Stakeholder	How we engaged	What matters to them	How the Board considers it
Borrowers	• Regular NPS surveys. • Ad hoc research – both quantitative and qualitative – on new and existing products. • Market research and competitive analysis to understand trends outside of our customer base. • Monitoring of public forums such as Trustpilot and social media to understand customer sentiment. • Via customer service teams – using data and, where possible, call recordings to share themes that emerge with the rest of the business.	1 Value (interest rate, fees etc.) 2 Certainty (of rate and acceptance) 3 Speed of disbursal, specifically for loans 4 Ease of understanding and managing, and achieve better outcomes for themselves	The Board evaluates whether the Company's actions and products will benefit Zopa's customers. 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		5 Security of their savings (FSFC coverage) 6 Interest rate 7 Ease of application and management	The Board assesses whether the Bank's actions and products will benefit Zopa's customers. In 2022, the Board maintained oversight of deposit pricing and increases in market and Zopa pricing in the rising Base rate environment.

Stakeholder engagement continued

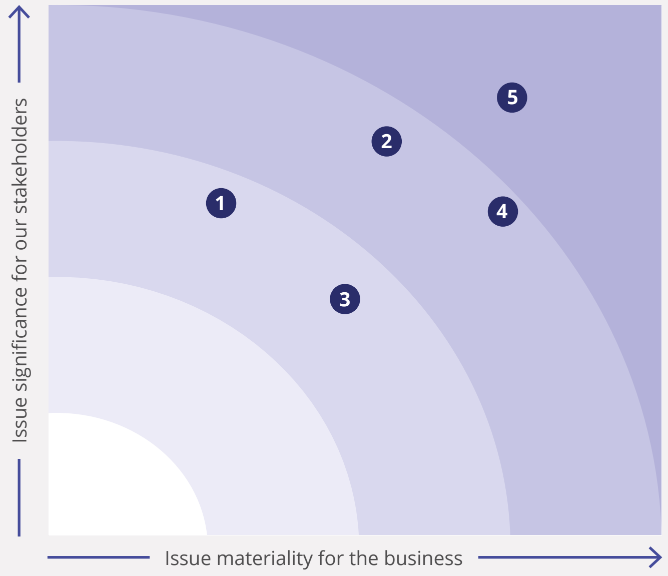
Our suppliers

In 2022, the Bank 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.

Our suppliers materiality matrix



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

Stakeholder engagement continued

Our suppliers continued

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.	1 To understand which services can add value to our business model and operations 2 To be remunerated fairly and in a timely fashion for their services 3 To build long-lasting business relationships founded on a deep understanding of each other's strategic priorities 4 To be satisfied that we follow the rule of law, comply with all relevant regulations and act ethically 5 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.

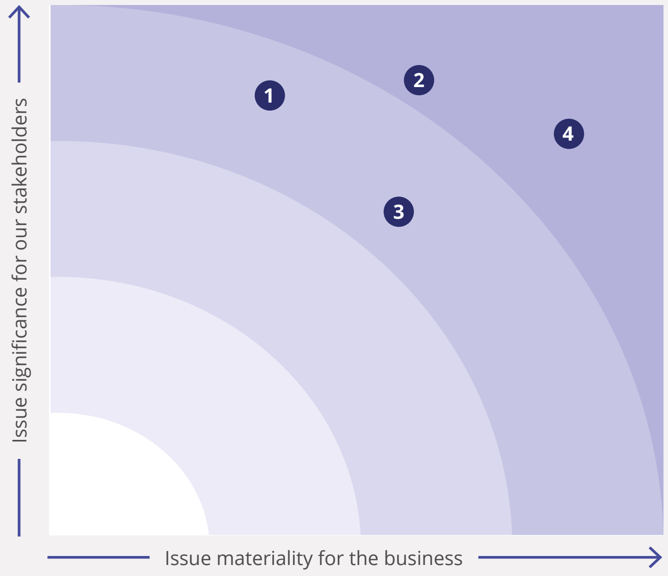
Stakeholder engagement continued

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.

Our industry bodies materiality matrix



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

Stakeholder engagement continued

Our industry bodies continued

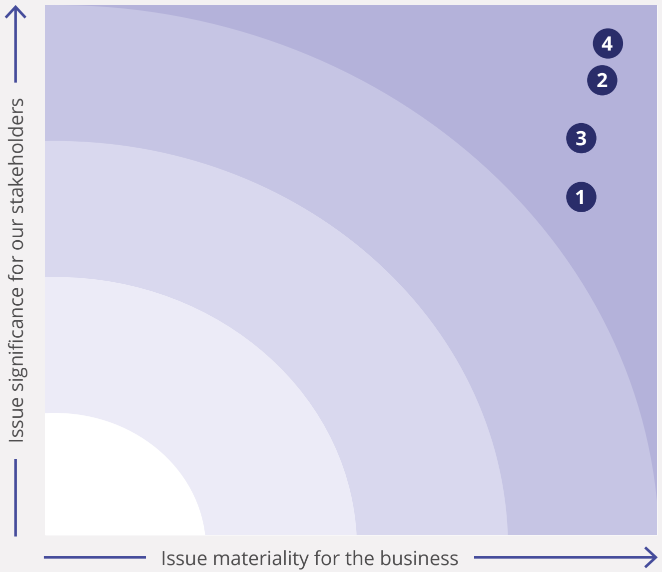
Stakeholder	How we engaged	What matters to them	How the Board considers it
Industry bodies	• Attended working party meetings, forums and discussion groups. • Contribution to consultation papers, research and management information as appropriate. • Engaged with additional groups such as the Dedicated 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.	1 Creating a single voice for the retail banking sector 2 Enhancing UK financial services market competitiveness 3 Facilitating innovation 4 Supporting customers by promoting safe and transparent banking	The Bank and the industry bodies share similar views on the matters important to the sector and its customers. Management provided updates to the Board on key industry trends and developments. This information is then used when the Board makes strategic decisions regarding the Bank.

Stakeholder engagement continued

Our regulators

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

Our regulators materiality matrix



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

Stakeholder engagement continued

Our regulators continued

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

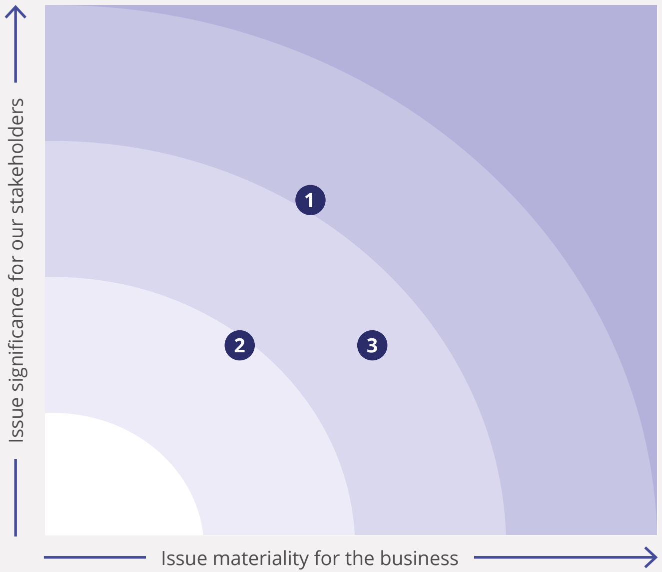
Stakeholder engagement continued

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 WithUkraine, 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 Company made charitable donations totalling £10,068 (2021: £1,400).

Our communities, environment, and climate change materiality matrix



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

Stakeholder engagement continued

Our communities, environment and climate change continued

Stakeholder	How we engaged	What matters to them	How the Board considers it
Community and environment	• Employee volunteering days. • Lunch and learn sessions. • Financial health and Borrowing Power tool. • Promoting financial inclusiveness/ budgeting. • How to spot and avoid financial fraud. • Mentoring. • Partnership with Code First Girls.	1 Equality of opportunity 2 How our activities impact the environment – greenhouse gas emissions 3 Sustainability commitments	During the year, the Board continued to support the Company's environmental, social and governance initiatives. This includes the 2025 Fintech Pledge launched by Zopa 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 regard to the environment, in particular the recommendations by the Task Force on Climate-related Financial Disclosures (TCFD).

Risk management

Risk management framework

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

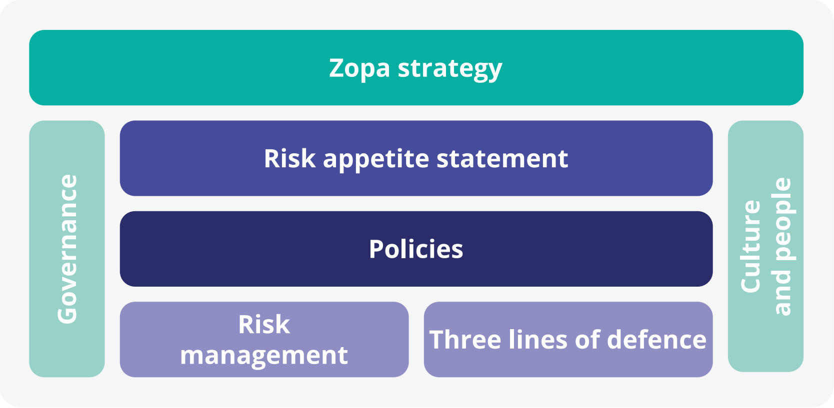
Risk culture and people

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; and
- 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 proactively 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.

Culture continued

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 Bank's long-term performance. For 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 Board Audit Committee (BAC), 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 Bank 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.

The People function 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; and
- centrally managing the performance appraisal process, to ensure a consistent application, in line with Zopa's Values and risk culture, across the business.

Risk management continued

Risk appetite

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

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

Three lines of defence

Zopa Bank'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 Board Audit Committee (BAC).

Risk governance

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

- The **Board**, with the support of its Board 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.

Risk management continued

Policies and procedures

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

Procedures, as 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; and
- **Response and learning**: When risks crystallise, 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 Bank's key annual assessments, including the internal capital adequacy assessment process (ICAAP), internal 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.

Risk management continued

Principal risks continued

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; and
- 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; and
- assets which Zopa holds as collateral for car finance loans depreciate in value by more than expected.

Appetite

Overall credit risk

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

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

Credit concentration risk

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

Counterparty credit risk

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

Mitigation

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

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

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

Risk management continued

Principal risks continued

Credit risk continued

Assessment and measurement

The Bank's accounting policy for measurement of expected credit losses can be found in note 35.

The Bank uses the standardised approach in determining the level of capital to be held in relation to credit risk for regulatory purposes. Under that approach, the Bank must set aside total capital equal to 8% of its total risk-weighted assets to cover its Pillar 1 capital requirements. As part of the ICAAP, the Bank 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 Bank 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 Bank also defines a range of internal indicators on credit and model performance, to measure the quality of originations and the portfolio on both a backward and forward-looking basis.

Monitoring and reporting

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

Refer to note 35 to the financial statements for more information on the risk management of financial instruments held by the Bank.

Principal risks continued

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 Bank faces is:

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

Other, less material, risks include:

- capital requirements exceed expectations; and
- unexpected failure of the Bank to receive a previously committed capital injection.

Appetite

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

Mitigation

The Bank'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 Bank's capital position are analysed, in the light of the Bank'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 Bank's capacity and resilience to withstand shocks of varying severities. Management actions are also identified which could be taken to mitigate the impact of the stresses on the Bank's capital position. The ICAAP is treated as a live document and used to inform ongoing capital management. Throughout 2022, the Bank continued to maintain capital ratios within the Board's risk appetite and regulatory requirements.

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

Assessment and measurement

The Bank is 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 Bank's final TCR and capital buffers based on its capital supervisory review and evaluation process, which includes review of the Bank ICAAP.

Throughout the financial year, the Bank complied with the capital requirements in force as set out by the PRA. Further details can be found in note 35 to the financial statements and in the Bank'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 Bank Board, as well as to the Bank's Asset and Liability Committee (ALCO), RMC and BRC, on a regular basis. The BRC reviews and recommends and the Bank Board approves the Bank ICAAP.

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

Principal risks continued

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 Bank 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; and
- outflows to corporate suppliers exceed expectations.

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

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

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 Bank to consider all material liquidity risks in detail, document an analysis of each key liquidity risk driver and set a liquidity risk appetite against each of those drivers.

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

Risk management continued

Principal risks continued

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

In 2022, the Bank 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 Bank 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 Company's repricing gap and sensitivity to interest yield curve analysis can be found in note 32.

Appetite

The Bank 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 Bank doesn't engage in any form of proprietary trading.

Mitigation

Hedging activity is performed to reduce residual market and interest rate risk exposure. Specifically, during 2022, Zopa started booking interest rate swaps for hedging purposes, with a total nominal of £315m at the end of the year

The Bank 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.

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 ALCO, the RMC, the BRC and the Board at their regular meetings at Bank level. The Bank carries out monthly supervisory outlier tests and reports the relevant results to ALCO.

Principal risks continued

Conduct risk

Definition
Conduct risk is the risk that the Bank'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 Bank'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&Cs);
- post-sale service failure (including statutory notices, statements and complaints process);
- failure to support customers in financial difficulties; and
- failure to support vulnerable customers.

Appetite
Though technically part of operational risk, the Bank 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 Bank Board is willing to accept in achieving its strategic objectives.

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

Like operational risk under the 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 Bank's activities and cultural approach.

The Bank has no appetite for customer outcomes that are poor by design and seeks to limit unintentional poor outcomes through the appropriate management of operational risk.

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

- the Board sets culture, values, behaviours and standards for the Bank. 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; and
- 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.

Principal risks continued

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 management continued

Principal risks continued

Operational risk continued

Risk profile

The material operational risks that the Bank faces are:

- fraudulent personal loan or credit card applications;
- cyber-attacks 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; and
- 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; and
- Zopa's physical assets are damaged.

Appetite

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

Mitigation

Each business area in the Bank 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; and
- 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 Bank under Pillar 1 was calculated using the basic indicator approach, whereby a 15% multiplier is applied to the historical average net interest and fee income of the last three years based on audited financial statements. 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 first line, reviewed by second line and reviewed by the Bank RMC, BRC and Board, with summary risk appetite reporting on this to the Bank Board.

Principal risks continued

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: The risk of a negative impact on stakeholder perceptions of Zopa which impacts its ability to attract or maintain its business.

Risk profile

The material strategic risks that the Bank faces are:

- inability to grow the 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; and
- 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 Bank's strategic planning process. The CEO leads the process, which includes ongoing analysis of the market, identification of strategic opportunities and design of detailed product proposals. Any impediments to successful execution of the strategy are identified and acted 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.

Risk management continued

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 Bank's ability to grow the business. Economic conditions 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 in the future, 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 were undertaken in 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.

Risk management continued

Uncertainties and emerging risks continued

Theme	Risk	Mitigation
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 Bank has assessed the financial risks it faces from climate change and determined that the potential impacts come under the following categories:
	• **Credit risk**: In particular,
	  • Zopa could experience increased credit risk if severe weather events such as flooding, wildfires or storms cause damage to vehicles against which we have 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 Bank is resilient to those risks, particularly in terms of credit outcomes and operational stability.

Governance

What’s in this section

Board of Directors

Peter Herbert

Appointed: 22 February 2018

Roles: Chair of the Zopa Bank Board

Committees:

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

Gaenor Bagley

Appointed: 13 December 2018

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

Committees:

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

Richard Goulding

Appointed: 30 January 2018

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

Committees:

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

Paul Cutter

Appointed: 30 January 2018

Roles: Independent non-executive director

Committees:

Paul joined the Audit Committee in January 2022.

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

The above are the directors who held office as at 18 April 2023.

Key:

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

Board of Directors continued

Gordon McCallum

Appointed: 12 January 2022

Roles: Independent non-executive director

Chair of the Zopa Group Board

Committees: ●

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

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

Gordon is currently a Senior Adviser to private equity group Searchlight Capital and a non-executive director at a number of companies, including Argent Energy (a major European producer of biodiesel from wastes) and Swire Pacific and Cathay Pacific (both of which are publicly listed in Hong Kong).

Giles Andrews, OBE

Appointed: 12 January 2022

Roles: Co-founder and non-executive director

Committees: ●

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

Giles acts as non-executive Chair at carwow, the marketplace helping over 12 million users discover the best new car for them. He is an independent non-executive director and member of the risk, remuneration and transformation committees of Bank of Ireland Group plc in Dublin and Chair of the Governing Council of the Centre for the Study of Financial Innovation, an independent think tank where financial services professionals and observers can share ideas about the challenges and opportunities facing the sector. Giles is also a non-executive director on the board of private bank C Hoare & Co.

Michael Woodburn

Appointed: 12 January 2022

Roles: Independent non-executive director

Committees: ●

Michael is the Chief Data Officer at ClearScore and also works with a venture capital consultancy, Blenheim Chalcot. Michael acts as the non-executive Chair at Kriya (formerly MarketFinance), the fintech platform that has advanced over £3bn in credit and processed over £20bn in B2B payments. Previously, Michael was Chief Executive Officer at Oakbrook Finance, Chief Marketing Officer and Chief Operating Officer in a 14-year career at Capital One UK, and also a manager at Schroders.

Scott Christopher Jones

Appointed: 12 January 2022

Roles: Non-executive shareholder director

Committees: ●

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

The above are the directors who held office as at 18 April 2023.

Key:

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

Board of Directors continued

Nick Aspinall

Appointed: 12 January 2022

Roles: Non-executive shareholder director

Committees: ●

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

Andrew Cassin

Appointed: 9 February 2022

Roles: Non-executive shareholder director

Committees: ●

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

Jaidev Janardana

Appointed: 31 March 2017

Roles: Bank CEO and executive director

Committees: ●

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

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

Stephen Hulme

Appointed: 30 March 2021

Roles: Bank CFO and executive director

Committees: ●

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

The above are the directors who held office as at 18 April 2023.

Key:

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

Our executive team

Jaidev Janardana

Chief Executive Officer

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

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

Steve Hulme

Chief Financial Officer

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

Clare Gambardella

Chief Customer Officer

Clare is responsible for Zopa's brand, customer experience and communications, ensuring they all come together to make us the best place for people to borrow and save. She also leads Product Design, Operations and cross-product channels like our App, ensuring our teams are delivering the award-winning experience Zopa is known for.

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

Merve Ferrero

Chief Strategy Officer

Merve oversees some of Zopa's most important products and services such as deposits as well as the overall strategy and operational resilience of the business.

Merve led the launch of Smart Saver, a new savings product, and Zopa's banking licence readiness which has allowed the Company to grow and become profitable. As Chief Strategy Officer, Merve is responsible for ensuring Zopa has a clear view of its future and the strategy in place to get there.

Merve has over 15 years of experience across strategy, product and business development. Before she joined Zopa in 2015, Merve was in China building and scaling tech companies and in investment banking prior to that.

Our executive team continued

Graham Robinson

Chief Risk Officer

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

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

Helen Beurier

Chief People Officer

Helen leads the design and delivery of Zopa's people experience, strengthening Zopa's unique culture as we grow our team and expand our strategic capabilities to solidify our leading position as a key competitor in the banking sector.

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

Tim Waterman

Chief Commercial Officer

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

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

Corporate governance

Governance structure

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

Board roles and responsibilities

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

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

Chair and Chief Executive Officer roles

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

Company Secretary

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

Board and executive committees

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

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

Corporate governance continued

Board and Board-level committees

Board of Directors

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

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

Board Risk Committee
Responsible for oversight of Zopa's risk profile against its risk appetite, and oversight of the executive management of risks

Board Audit Committee
Responsible for oversight of accounting policies and judgements, control environment (systems and procedures), financial reporting, whistleblowing, internal and external audit plan

Nomination and Remuneration Committee
Responsible for the compensation and incentive schemes, reward of senior executives and nominations to the Board

Composition of the Board as at:	No. of individuals 31.12.22	No. of individuals 31.12.21
Number of independent directors	6	4
Number of non–independent directors	6	2
of which executive directors	2	2
Total number of directors	12	6

Management committees

Management committees

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

Executive Committee (ExCo)
Implement strategy, operational performance, financial performance, monitoring and control of risk exposure

Risk Management Committee (RMC)
Oversight of the Bank's risk management framework and reviewing risk management issues with regard to its risk appetite

Asset and Liability Committee (ALCO)
Responsible for liquidity, capital, funding, market and interest rate risk management

Corporate governance continued

The Board and its activities

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

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

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

Attendance	Total meetings attended/meetings eligible to attend
Peter Herbert (Chair)	9/11
Paul Cutter	11/11
Gaenor Bagley	10/11
Richard Goulding	10/11
Jaidev Janardana	11/11
Steve Hulme	11/11
Giles Andrews	10/11
Nicholas Aspinall	10/11
Christopher Jones	10/11
Andrew Cassin	9/11
Gordon McCallum	9/11
Michael Woodburn	11/11

Corporate governance continued

Strategic report
Governance
Financial statements
Additional information

Summary of Board activities in 2022

Area of focus	Actions taken by the Board and outcomes
Brand and customer	• Considered the needs of customers and the cost-of-living crisis • Approved the 2025 Fintech Pledge initiative
Regulatory matters	• Monitored progress against actions to be completed as part of the regulatory supervisory plans for the Bank • Considered the areas of focus set out in applicable PRA Supervisory Statements • Approved the Bank's ICAAP and ILAAP and Recovery Plan
Strategy	• Approved new products development • Approved the annual budget • Approved the performance scorecard • Approved the terms of a fundraise to support asset growth and further extend Bank capital runway • Considered inorganic growth opportunities for the Bank
Governance	• Completed Board effectiveness review • Held Consumer Duty planning session • Approved 2021 Annual Report and Pillar 3 disclosures • Reviewed and approved annual updates to Modern Slavery Statement • Adopted updated policies following periodic review: Remuneration Policy; Intermediaries Policy; Outsourcing, Procurement and Supplier Management Policy; Business Continuity Policy; Financial Crime: Anti-Bribery and Corruption Policy and Tax Evasion Policy; Credit and Responsible Lending Policy; Whistleblowing Policy • Approved updates to Board terms of reference and Matters Reserved and to the Audit Committee terms of reference • Approved adoption of hedge accounting to minimise P&L volatility

The Board Risk Committee and its activities

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

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

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

Summary of Board Risk Committee activities in 2022

Area of focus	Actions taken by the Board Risk Committee and outcomes
Strategy	• Provided advice to the Board on the risk aspects associated with selection of the outsourcing partner for card processing and IT infrastructure • Provided advice to the Board on the core assessments of prudential adequacy (ICAAP, ILAAP and Recovery Plan) • Reviewed the proposed approach to implementing the Bank's obligations under the new Consumer Duty regulation
Oversight	• Reviewed risk MI and the escalation of material events and related root cause analyses • Reviewed and approved new and amended policies
Development of the risk function	• Reviewed the risk management strategy and proposals to further enhance efficiency and effectiveness
Scenario planning	• Reviewed the credit risk and operational risk scenarios to be used as part of the Bank's ICAAP and ILAAP
Climate change	• Reviewed the assessment of the Bank's business model's exposure to the financial risks of climate change
Products	• Advised the Board on the risk implications of new products, including the PCP product launched in 2022
Remuneration	• Provided advice to the Nomination and Remuneration Committee (NRC) on risk weightings to be applied for performance objectives and remuneration

The Board Audit Committee and its activities

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

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

Attendance	Total meetings attended/meetings eligible to attend
Gaenor Bagley (Chair)	7/7
Richard Goulding	6/7
Paul Cutter	6/7

Summary of Board Audit Committee activities in 2022

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

The Board Nomination and Remuneration Committee and its activities

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

Attendance	Total meetings attended/meetings eligible to attend
Gaenor Bagley (Chair)	5/5
Richard Goulding	5/5
Peter Herbert	5/5

Summary of Board Nomination and Remuneration Committee activities in 2022

Area of focus	Actions taken by the Board Nomination and Remuneration Committee and outcomes
Diversity and inclusion	• Reviewed the Bank's reporting on diversity and inclusion, including the gender pay gap
Senior Managers Regime	• Provided oversight of the annual fitness and probity checks of senior management functions and reviewed the Bank's annual assessment of the certified functions
Board membership	• Reviewed the performance and ability of the independent directors and, where applicable, recommended their re-appointment to the Board at the conclusion of the specified term in office
Succession planning	• Reviewed and approved the Bank's employee value proposition • Made recommendations to the Board in relation to succession plans for individuals performing senior management functions, including proposed appointment of a new Board Chair
Remuneration	• Made recommendations to the Board regarding remuneration and performance-related pay • Received advice from the BRC on appropriate remuneration outcomes based on risk metrics • Made recommendations to the Board on amendments to vesting schedule for certain awards under the Group share option plan

Training and induction

New Board members are offered comprehensive induction training and meet with relevant members of staff to support the transition into their new role. The Board also reviews and approves the Board training programme on an annual basis by considering the strategy and any collective and individual development. Directors are encouraged to attend external seminars on areas of relevance to their role.

Conflicts of interest

All directors have a duty to avoid situations that may give rise to a conflict of interest. Formal procedures are in place for dealing with any conflicts of interest. Directors are responsible for notifying the Chair and the Company Secretary as soon as they become aware of any actual or potential conflict of interest for discussion by the Board members, who consider the circumstances of the conflict when deciding whether to waive the potential conflict or impose conditions on the director in the Company's interests. Directors are also required to seek the Board's approval for any new appointments or changes in commitments.

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

Diversity policy

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

Our culture, values and standards

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

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

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

Directors' report

Corporate governance

The directors of Zopa Bank Limited (henceforth 'the Bank' or 'the Company') present their annual report together with the audited financial statements for the year ended 31 December 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 2 to 81. As noted in the table below, the Bank has chosen, in accordance with Section 414C(11) of the Companies Act 2006, to include certain matters in its strategic report that would otherwise be disclosed in this directors' report.

Subject	Pages
Business review and future developments	8 to 18
Results for the year	19 to 26
Composition of the Board and Board committees	66 to 72
Approach to corporate governance	71 to 78
Relationship with shareholders	36 and 37
Employees and employees with disabilities	38 and 39
Relationship with suppliers	42 and 43
Charitable donations	48
Environment and greenhouse gas emissions	33 and 34
Risk management	50 to 64
Use of financial instruments	105 to 108
Post balance sheet events	157

Dividends

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

Going concern

The financial statements have been prepared on a going concern basis, as the directors are satisfied that the Bank will have the resources to continue business for a period of at least twelve months from the date of approval of these financial statements. In making this assessment, the directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet (the statement of financial position), future projections of profitability, cash flows and capital resources. The Bank's capital and liquidity plans, including alternative scenarios such as 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 Bank has reflected the economic repercussions of the war in Ukraine and the risks of further increases to energy prices.

On 31 January 2023, Zopa Group Limited, the parent holding company of Zopa Bank, completed a £75m capital raise. On the same day, Zopa Bank received £50m of equity investment from its parent, further strengthening the capital position of the Bank.

Political donations

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

Directors' report continued

Share capital

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

Details of the Bank's issued share capital, together with details of any movements in the Bank's issued share capital during the year, are shown in note 27 of the financial statements. The Bank's share capital comprises one class of ordinary share with a nominal value of £1 each. As at 31 December 2022, 421,319,069 ordinary shares were in issue (2021: 349,319,069).

Substantial shareholdings

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

Restrictions on the transfer of shares

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

Rights attaching to shares

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

New issues of share capital

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

Purchase of own shares

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

Appointment and resignations of directors

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

There were no director resignations in 2022. The following director appointments have taken place in 2022 and until the date of publication of this Annual Report and Accounts:

Director	Appointed
Andrew Cassin	09.02.2022
Giles Andrews	12.01.2022
Gordon McCallum	12.01.2022
Scott Christopher Jones	12.01.2022
Michael Woodburn	12.01.2022
Nicholas Aspinall	12.01.2022

Directors' remuneration

The Bank adheres to the requirements of the Remuneration Code as defined by the Financial Conduct Authority, the UK regulator. The non-executive directors don't 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.

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

Directors' report continued

Directors' indemnities

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

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

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

Under company law, directors must not approve the financial statements unless they're satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the financial statements, the directors are required to:

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

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

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

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

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

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

Independent auditors

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

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

Jaidev Janardana
Chief Executive Officer

18 April 2023

Financial statements

What's in this section

Independent auditors' report

to the members of Zopa Bank Limited

Report on the audit of the financial statements

Opinion

In our opinion, Zopa Bank Limited's financial statements:

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

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

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

Basis for opinion

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

Independence

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

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

Other than those disclosed in Note 9, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

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

Key audit matters

- Determination of allowance for expected credit losses on loans and advances – Unsecured Personal Loans and Credit Cards.
- Application of macro fair value hedge accounting.

Materiality

- Overall materiality: £1,512,000 (2021: £1,404,000) based on 5% of the average of the last three years (including 2022) reported loss before tax.
- Performance materiality: £1,134,000 (2021: £1,053,000).

The scope of our audit

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

Key audit matters

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

Report on the audit of the financial statements continued

Our audit approach continued

Key audit matters continued

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

The application of macro fair value hedge accounting is a new key audit matter this year. Determination of the fair value of the loan book acquired from retail investors, which was a key audit matter last year, is no longer included because of the reduced level of audit effort this year given that it was the second part of a transaction which occurred in the prior year and there was a short time gap between the two. Otherwise, the key audit matters below are consistent with last year.

Key audit matter

Determination of allowance for expected credit losses on loans and advances – Unsecured Personal Loans and Credit Cards

As at 31 December 2022 the gross carrying value of loans and advances to customers was £2,080m and the associated allowance for expected credit losses was £141m.

Due to the size of these portfolios and the uncertain economic environment, there is an increased risk that the unsecured personal loans (UPL) and credit card receivables, which total £1,786m as at 31 December 2022, may not be recoverable and not carried at the appropriate value on the statement of financial position.

The determination of the allowance for expected credit losses (ECL) is subjective and judgemental. Models are used to collectively assess and determine the allowance for expected credit losses on the unsecured personal loan and credit card portfolios. The key inputs and assumptions into these models include significant increase in credit risk criteria, probability of default, loss given default and the use of multiple, probability weighted, economic scenarios.

The level of estimation uncertainty and judgement has remained high during 2022 as a result of rising inflation, an uncertain interest rate environment and geopolitical events.

We have focused our work on the areas that we consider to be the most judgemental, being the determination of the probability of default, the selection of forward looking economic assumptions used in the models, including management's assumptions to address economic uncertainty, the judgements involved in addressing underlying economic uncertainty through the use of post model adjustments and the application of these adjustments.

Reference to Note 16 'Loans and advances to customers' and Note 35.1 'Financial Risk Management – credit risk' in the financial statements.

How our audit addressed the key audit matter

We understood and evaluated the design and implementation of controls relating to the determination of the allowance for expected credit losses (ECL) on unsecured personal loans and credit card receivables.

We tested the operating effectiveness of key controls around the determination of ECL for the UPL and credit card portfolios, including controls relating to:

- review of the completeness and accuracy of the output from the ECL model by the Chief Credit Officer;
- review and approval of the ECL allowance (including post model adjustments) at the Monthly Finance meeting; and
- review and approval of post model adjustments by the Chief Financial Officer and presented at the Board Audit Committee for approval.

Report on the audit of the financial statements continued

Our audit approach continued

Key audit matters continued

How our audit addressed the key audit matter continued

Determination of allowance for expected credit losses on loans and advances – Unsecured Personal Loans and Credit Cards continued

We found these key controls were designed and implemented effectively, and therefore determined that we could place reliance on these key controls for the purposes of our audit.

In addition, together with our credit risk modelling specialists, we performed the following substantive procedures:

- we understood and critically assessed the appropriateness of the impairment policy (including management's definitions of default and a significant increase in credit risk);
- we tested the key assumptions and judgement used in the calculation of the ECL allowance, including, but not limited to, those made by management in determining Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD);
- we independently replicated the calculation of the ECL allowance for the UPL portfolio. We utilised the PD and LGD assumptions provided by management and independently replicated management's calculation of modelling components, and their implementation of the macroeconomic model and staging criteria. We reviewed the code within the credit card ECL models by comparing it to the prior year and translating the key blocks of code and reconciling this to the company's methodology;
- we assessed the reliability and reasonableness of historic macroeconomic and forward-looking information (obtained from management's expert) and the scenario weights used in the ECL model to determine the economic scenarios by comparing this to external evidence as well as our experts' judgements; and
- assessed the completeness and accuracy of post-model adjustments, including obtaining a detailed understanding of the rationale for the adjustment, reviewing the methodology applied by management to calculate the adjustment and tested implementation of material overlays.

We also assessed the disclosures in Note 1.7 and Note 35, regarding the critical estimates and judgements involved in determining ECL and found them to be appropriate.

Based on the evidence obtained, we concluded that the methodologies, modelled assumptions and management judgements in determining the ECL allowance for unsecured personal loans and credit cards to be appropriate and compliant with the requirements of IFRS 9.

Key audit matter

Application of macro fair value hedge accounting

In September 2022 management entered into a macro fair value hedging programme to manage the interest risk in its unsecured personal lending (UPL) and auto loan portfolios.

The company enters into interest rate swap contracts which are then designated into hedge accounting relationships. The carrying value of the hedged items (UPL and auto loans) is adjusted by the fair value gain or loss attributable to changes in the hedged risk, therefore reducing the volatility in the statement of comprehensive income.

During the year the company has recognised a £1.8m fair value loss from the underlying hedged loans and a £1m gain from the underlying swaps designated into hedge relationships in the year with the hedge effectiveness test being met throughout the period.

The company follows the guidance set out in IAS39 to account for the macro fair value hedges. The application of hedge accounting for the first time in the year was an area of focus for our audit and our discussions with both management and the Board Audit Committee.

Reference to note 15 'Derivative financial instruments' in the financial statements for management's associated accounting policies.

How our audit addressed the key audit matter

We understood and evaluated the design and implementation of controls relating to the application of hedge accounting;

- We tested management's controls over the accuracy and completeness of the underlying data used in the various models including the inputs feeding into hedging models and respective calculations; and
- We independently reperformed ineffectiveness testing for prospective and retrospective regression on a sample basis to assess the statistical relationship between the hedged item and the hedging instruments.

We found these controls were designed and implemented effectively, and therefore determined that we could place reliance on these controls for the purposes of our audit.

In addition we performed the following substantive procedures:

- We understood the nature of the hedge accounting relationships designated by management in the context of the overall risk management objective and strategy;
- To assess whether hedging relationships qualify for hedge accounting, we obtained and assessed the formal hedge documentation in place and whether it is compliant with the requirements of the accounting standard;
- For a sample of hedges we have tested whether they were designated and de-designated correctly following the principles laid out by management in their formal hedge documentation;

How our audit addressed the key audit matter continued

Application of macro fair value hedge accounting continued

- We independently re-calculated a sample of behavioural cash flows used as the basis for identifying the hedged assets (UPL and auto loans) and allocating them to each re-pricing period;
- We involved valuation specialists in order to independently value the underlying swaps;
- We further evaluated the appropriateness of the valuation methodology in relation to the hedge items and independently valued them on a sample basis; and
- We tested the reconciliation of the hedging models with the amounts recorded in the general ledger and agreed that the balances recorded in the financial statements are accurate.

We also assessed the disclosures in Note 15 in relation to portfolio hedge accounting to be appropriate.

From the evidence we obtained, we found that the hedge accounting methodology was compliant with accounting standards and the underlying hedging calculations were accurate.

How we tailored the audit scope

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

The company provides a variety of financial services to retail customers in the UK. We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which they operate.

Our overall approach to setting our audit scope was to focus our audit in areas where we identified a higher risk of material misstatement to the financial statements, including areas where management made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. To conduct this risk assessment, we considered the inherent risks facing the company, including those arising from its respective business operations, and how the company manages these risks, as well as our knowledge and experience obtained in prior year audits.

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

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the company's financial statements.

Report on the audit of the financial statements continued

Our audit approach continued

Materiality

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

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

Overall company materiality	£1,512,000 (2021: £1,404,000).
How we determined it	5% of the average of the last three years (including 2022) reported loss before tax
Rationale for benchmark applied	We determined materiality by applying 5% to the average loss before tax for the previous three years (including 2022). The parent company, management, the Board and the company's regulators are the primary users of the financial statements. We consider loss before tax to be the most appropriate benchmark given profitability of the company is the focus for these users and it is a generally accepted auditing benchmark. Given the volatility in the underlying performance of the company as a consequence of it moving from start-up in 2020, we consider it appropriate to take an average of the results of the preceding three years.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £1,134,000 (2021: £1,053,000) for the company financial statements.

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

We agreed with the Board Audit Committee that we would report to them misstatements identified during our audit above £75,000 (2021: £70,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- a risk assessment to identify factors that could impact the going concern basis of accounting;
- evaluating management's going concern assessment including the company's capital and liquidity position and financial forecasts over the going concern period and reviewing the most recent ICAAP and ILAAP documents;
- evaluation of the stress testing performed by management including their severe but plausible downside scenario;
- substantiation of financial resources available to the company; and
- reading and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

Strategic report
Governance
Financial statements
Additional information

Independent auditors' report

continued

to the members of Zopa Bank Limited

Report on the audit of the financial statements continued

Conclusions relating to going concern continued

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

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 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 company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

Independent auditors' report

continued

to the members of Zopa Bank Limited

Report on the audit of the financial statements continued

Responsibilities for the financial statements and the audit continued

Auditors' responsibilities for the audit of the financial statements continued

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the relevant rules of the Prudential 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 financial statements and management bias in accounting estimates and judgements, in particular the allowance for expected credit losses. 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 reported on the company's whistleblowing helpline and the results of management's investigation of such matters;
- reading correspondence with the FCA and the PRA;
- reading minutes of the board and audit committee to identify any matters of audit relevance;
- challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the valuation of loans and advances - Unsecured Personal Loans and Credit Cards (see related key audit matter); 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.

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

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

Use of this report

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

Independent auditors' report

continued

to the members of Zopa Bank Limited

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Board Audit Committee, we were appointed by the directors on 8 November 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is six years, covering the years ended 31 December 2017 to 31 December 2022.

Nick Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

18 April 2023

Statement of comprehensive income

For the year ended 31 December

The accompanying accounting policies and notes on pages 96 to 157 are an integral part of the financial statements.

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

	Notes	**2022 £000**	2021 £000
Interest income		**200,049**	61,146
Interest expense		**(33,937)**	(5,466)
Net interest income	2	**166,112**	55,680
Fee and commission income		**8,133**	2,432
Fee and commission expense		**(9,040)**	(3,275)
Net fee and commission expense	3	**(907)**	(843)
Other operating income	4	**279**	12,807
Net losses on derecognition of financial assets measured at amortised cost	5	**(21,049)**	(2,234)
Changes in fair value of financial instruments measured at FVTPL	15	**6,089**	(182)
Total operating income		**150,524**	65,228
Operating expenses	6	**(75,578)**	(57,640)
Net operating income		**74,946**	7,588
Change in expected credit losses and other credit impairment charges	10	**(100,609)**	(41,812)
Change in provisions for other liabilities and charges	25	**(325)**	—
Loss before tax		**(25,988)**	(34,224)
Taxation	11	**—**	1
Loss after tax		**(25,988)**	(34,223)
Total comprehensive loss		**(25,988)**	(34,223)
Attributable to:			
Equity holders		**(25,988)**	(34,223)

Statement of financial position

As at 31 December

The accompanying accounting policies and notes on pages 96 to 157 are an integral part of the financial statements.

	Notes	2022 £000	2021 £000
Assets			
Cash and cash equivalents:			
– Central banks	13	**1,397,062**	191,148
– Other banks	13	**21,429**	30,366
– Debt securities	13	**13,386**	16,244
Financial assets at fair value through profit or loss:			
– Derivative financial instruments	15	**8,346**	11
Financial assets at amortised cost:			
– Loans and advances to customers	16	**1,937,964**	1,173,013
– Amounts due from other Group undertakings	17	**—**	1,808
Prepayments and accrued income	18	**5,007**	2,489
Other assets	19	**28,358**	1,960
Property, plant and equipment	21	**788**	1,054
Right-of-use assets	20	**1,559**	3,526
Intangible assets	22	**9,435**	9,352
Total assets		**3,423,334**	1,430,971
Liabilities			
Financial liabilities at fair value through profit or loss:			
– Derivative financial instruments	15	**757**	—
Financial liabilities at amortised cost:			
– Amounts due to banks	23	**180,074**	175,193
– Deposits by customers	24	**2,922,845**	968,000
– Amounts due to other Group undertakings	17	**106**	17,000
Accruals		**10,449**	8,887
Provisions	25	**1,370**	1,372
Other liabilities	26	**7,087**	5,113
Lease liabilities	20	**1,039**	3,151
Total liabilities		**3,123,727**	1,178,716
Equity			
Called–up share capital	27	**421,319**	349,319
Other reserves	28	**5,902**	6,180
Retained losses		**(127,614)**	(103,244)
Total equity		**299,607**	252,255
Total equity and liabilities		**3,423,334**	1,430,971

The financial statements were approved by the Board of Directors on 18 April 2023 and signed on its behalf by:

Jaidev Janardana
Chief Executive Officer

Steve Hulme
Chief Financial Officer

Statement of changes in equity

For the year ended 31 December

The accompanying accounting policies and notes on pages 96 to 157 are an integral part of the financial statements.

	Notes	Called-up share capital £000	Other reserves[1] £000	Retained losses £000	Total equity £000
Balance as at 1 January 2021		192,319	4,324	(69,021)	127,622
Total comprehensive loss		—	—	(34,223)	(34,223)
Shares issued	27	157,000	—	—	157,000
Net share option movements	29	—	1,856	—	1,856
Balance as at 31 December 2021		349,319	6,180	(103,244)	252,255
Balance as at 1 January 2022		**349,319**	**6,180**	**(103,244)**	**252,255**
Total comprehensive loss		**—**	**—**	**(25,988)**	**(25,988)**
Shares issued	27	**72,000**	**—**	**—**	**72,000**
Net share option movements	29	**—**	**1,340**	**—**	**1,340**
Transfer of capital contribution reserve[1]	28	**—**	**(1,618)**	**1,618**	**—**
Balance as at 31 December 2022		**421,319**	**5,902**	**(127,614)**	**299,607**

1. In 2021 other reserves consisted of a share-based payments reserve and capital contribution reserve. In 2022 the capital contribution reserve has been transferred into retained losses reserve, as explained in note 28.

Statement of cash flows

For the year ended 31 December

The accompanying accounting policies and notes on pages 96 to 157 are an integral part of the financial statements.

	Notes	2022 £000	2021 £000
Reconciliation of loss before tax to net cash flows from operating activities:			
Loss before tax		**(25,988)**	(34,224)
Adjustments for:			
– Non-cash items	14	**92,460**	50,828
– Changes in operating assets and liabilities	14	**1,082,800**	(192,441)
Net cash generated from/ (used in) operating activities		**1,149,272**	(175,837)
Cash flows from investing activities			
Purchase of property, plant and equipment	21	**(610)**	(519)
Purchase and development of intangible assets	22	**(3,948)**	(2,036)
Net cash used in investing activities		**(4,558)**	(2,555)
Cash flows from financing activities			
Shares issued	27	**72,000**	157,000
Change in TFSME and ILTR borrowings	23	**(3,791)**	175,182
Change in non-trading amounts due to and from other Group undertakings	17	**(16,507)**	15,144
Principal elements of lease payments	20	**(2,297)**	(632)
Net cash generated from financing activities		**49,405**	346,694
Net increase in cash and cash equivalents		**1,194,119**	168,302
Cash and cash equivalents at start of year	13	**237,758**	69,456
Cash and cash equivalents at end of year	13	**1,431,877**	237,758
Loss before tax includes:			
Interest received		**187,510**	52,771
Interest paid		**(30,085)**	(5,020)

Notes to the financial statements

For the year ended 31 December

1. Basis of preparation and significant accounting policies

Overview

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

1.1 General information

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

1.2 Basis of preparation

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

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

1.3 Going concern

The directors consider that it is appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements. In reaching this assessment, the directors have considered projections for the Company's capital and funding position, statement of financial position (balance sheet), profitability, cash flows, as well as other principal risks disclosed in the strategic report. The Bank'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 Bank 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 since the date of authorisation of these financial statements.

1.4 Functional and presentational currency

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

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

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

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

1.5 Segmental reporting

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

Notes to the financial statements
continued

For the year ended 31 December

1. Basis of preparation and significant accounting policies
continued

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

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

The areas noted in the table below have a higher degree of complexity, judgement or the estimates have a significant risk of a material adjustment to the carrying amounts within the next financial year. No other significant judgements or 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 financial statements therefore present the financial position and results of the Company fairly.

Critical judgments and accounting estimates		Notes
Expected credit loss allowance – measurement of allowance for expected credit losses	Criteria for significant increase in credit risk	35
	Use of post-model adjustments on the potential impact of the rising mortgage rates	35
	The impact of macroeconomic scenarios and weightings on the probability of default	35
Measurement of fair value of loans acquired from retail investors in Zopa Limited's peer-to-peer lending platform	Discount rate	34

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

1.8 New accounting standards, interpretations and changes to accounting policies
From 1 September 2022, the Company has applied hedge accounting. The Company applies the exemption to continue using IAS 39 hedge accounting for fair value macro hedges of interest rate risk. Refer to note 15 for the accounting policy.

The Company 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 Company's financial statements.

The IASB has issued a number of other minor amendments to IFRS 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 Company.

2. Net interest income

Accounting policy

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

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

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

- hire purchase (HP) and personal contract purchase (PCP) car finance loan contracts to customers (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.

	Notes	2022 £000	2021 £000
Interest income			
Cash and balances held at central banks		**11,942**	123
Cash and balances held at other banks		**53**	(2)
Debt securities		**—**	1
Loans and advances to customers		**188,054**	61,024
Total interest income		**200,049**	61,146
Interest expense			
Deposits from customers		**(30,208)**	(5,168)
Amounts due to other banks		**(2,760)**	(92)
Amounts due to other Group undertakings	17	**(784)**	(80)
Lease liabilities	20	**(185)**	(126)
Total interest expense		**(33,937)**	(5,466)
Net interest income		**166,112**	55,680

Notes to the financial statements
continued

For the year ended 31 December

3. Net fee and commission expense

Accounting policy

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

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

Fee and commission income is mainly comprised of fees charged to credit card customers, referral commission and servicing the loan book previously serviced by Zopa Limited (now Plata Finance Limited), which was sold by Zopa Group Limited on 10 February 2022. Fee and commission expense primarily consists of transaction processing and customer eligibility assessment fees.

	2022 £000	2021 £000
Fee and commission income		
Credit cards	**6,382**	2,168
Referral commission	**401**	264
Servicing fees	**1,350**	—
Total fee and commission income	**8,133**	2,432
Fee and commission expense	**(9,040)**	(3,275)
Net fee and commission expense	**(907)**	(843)

4. Other operating income

Accounting policy

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

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

	Note	2022 £000	2021 £000
Intra-Group recharges	17	**279**	12,807
Total operating income		**279**	12,807

Notes to the financial statements
continued

For the year ended 31 December

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

Accounting policy

The Company only sells financial assets if they no longer meet the Company's 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 include 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 'Change in expected credit losses and other credit impairment charges' in the income statement.

	2022 £000	2021 £000
Loss on sale of credit-impaired loans	**19,254**	1,878
Loan write-offs due to customer fraud	**1,795**	356
Net losses on derecognition of financial assets measured at amortised cost	**21,049**	2,234

The significant increase in losses on sale of credit-impaired loans is due to sales of impaired loans acquired as part of the peer-to-peer (P2P) loans previously held by retail investors on the P2P platform operated by Zopa Limited. Conditions of the acquisition required the Company to purchase all loans, irrespective of their delinquency status.

6. Operating expenses

	Notes	2022 £000	2021 £000
Wages and salaries	7	**49,057**	35,373
Contractors		**1,325**	511
Less: capitalised development costs recognised as intangible additions		**(3,667)**	(2,036)
Legal and professional		**6,638**	5,110
Depreciation of PPE and right-of-use assets	20 & 21	**2,818**	1,611
Amortisation of intangible assets	22	**3,865**	4,785
Impairment of PPE, intangible assets and right-of-use assets		**25**	82
Information technology		**7,920**	5,352
Intra-Group recharges	17	**378**	2,453
Loss on acquisition of loan portfolio	34	**651**	1,341
Other		**6,568**	3,058
Total operating expenses		**75,578**	57,640

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 Company did not benefit directly from any other forms of government assistance. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Notes to the financial statements
continued

For the year ended 31 December

7. Wages and salaries

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

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

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

The below expenses are presented gross of people costs which were capitalised as part of the Company's intangible assets. See note 22 for accounting policies on intangible asset capitalisation.

The accounting policies on share-based payments are included in note 29.

	Note	2022 £000	2021 £000
Employee benefits		**41,041**	28,998
Social security costs		**5,139**	3,443
Defined contribution pension expenses		**1,537**	1,076
Equity-settled share-based payments	29	**1,340**	1,856
Total people costs		**49,057**	35,373

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

	2022 Number	2021 Number
Loan operations and servicing	**336**	278
Administration	**264**	174
Total staff	**600**	452

Notes to the financial statements
continued

For the year ended 31 December

8. Directors' remuneration

This table sets out emoluments and pension contributions in respect of all directors.

	2022 £000	2021 £000
Directors' emoluments	**2,074**	1,373
Pension contributions	**9**	36
Total directors' remuneration	**2,083**	1,409

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

	2022 £000	2021 £000
Emoluments	**943**	629
Pension contributions	**9**	36
Total highest paid director remuneration	**952**	665

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 one director.

One executive director exercised 100,000 options during 2022, which is considered in the share-based payments figure included in note 29. There were no share-based options exercised by directors in 2021.

9. Independent auditors' fees

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

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

	2022 £000	2021 £000
Fees payable for the statutory audit of the Company's financial statements	**780**	521
Fees payable for other assurance services	**1**	36
Total fees payable to auditors	**781**	557

Auditors' remuneration to PricewaterhouseCoopers LLP for 2022 in relation to the statutory audit includes £113k (2021: £52k) which pertains to additional fees for the prior year's statutory audit that was paid during the year.

Notes to the financial statements
continued

For the year ended 31 December

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

Accounting policy

The accounting policies on expected credit losses are included in note 35. 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 allowance in the income statement.

	Notes	2022 £000	2021 £000
ECL movements and write-offs on loans and advances to customers	35	**100,677**	41,416
Recoveries of loans and advances, net of collection costs		**(217)**	(5)
Increase in ECL on off-balance sheet exposures	25	**149**	401
Change in expected credit losses and other credit impairment charges		**100,609**	41,812

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

11. Taxation

Accounting policy

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

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

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

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

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

Notes to the financial statements continued

For the year ended 31 December

11. Taxation continued

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.

11.1 Tax credit

	2022 £000	2021 £000
Current tax on losses for the year	—	—
Adjustments in respect of prior years	—	(1)
Total credit	—	(1)
Deferred tax	—	—
Adjustments in respect of prior years	—	—
Total deferred tax charge	—	—
Total tax credit	—	(1)

11.2 Reconciliation of effective tax rate

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

	2022 £000	2021 £000
Loss before tax	(25,988)	(34,224)
Tax at 19% (2021: 19%)	(4,938)	(6,503)
Tax effect of:		
Non-deductible expenses for tax purposes	385	536
Adjustments in respect of prior years	—	(1)
Losses for which no deferred tax asset is recognised	4,556	5,794
Other differences	(3)	173
Total tax credit	—	(1)

11.3 Unrecognised deferred tax assets

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

	2022 £000	2021 (restated)[1] £000
Deductible temporary differences	828	608
Tax losses carried forward	26,099	20,779
Total unrecognised deferred tax assets	26,927	21,387

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 £107,668k (2021: £84,471k).

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

Notes to the financial statements
continued

For the year ended 31 December

12. Financial instruments

Accounting policy

Recognition and derecognition

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

Derecognition of financial instruments

Financial assets are derecognised when, and only when:

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

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

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

Classification of financial assets

There are three principal classification categories for financial assets:

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

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

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

Notes to the financial statements continued

For the year ended 31 December

12. Financial instruments continued

Accounting policy continued

Classification of financial assets continued

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

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

Measurement of financial assets

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

For purchased or originated credit-impaired (POCI) financial assets on initial recognition a credit-adjusted effective interest rate is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in the estimated future cash flows. When revisions to the estimates of future cash flows occur, the carrying amounts 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 profit or loss (FVTPL) are measured initially and subsequently at fair value. Changes in fair value are recognised in profit and loss as they arise.

The accounting policies on the expected credit loss of financial instruments are included in note 35.

Financial liabilities at amortised cost

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

Offsetting

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

Notes to the financial statements continued

For the year ended 31 December

12. Financial instruments continued

As at 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 Company acquired a portfolio of loans that included purchased or originated credit-impaired (POCI) loans on initial recognition. Further details are in note 34. The expected credit losses on POCI loans have been measured on a lifetime basis, with only changes in lifetime ECL recognised on the balance sheet. Further details of this treatment can be found in note 35.

Financial assets pledged as collateral

The Company has pledged £375.8m (2021: £397.1m) of the financial assets 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 23.

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

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	—	—	21,429	21,429
Debt securities	13,386	—	—	13,386
Derivative financial instruments	8,346	—	—	8,346
Loans and advances to customers	—	—	1,937,964	1,937,964
Other assets	—	—	27,038	27,038
Total financial assets	21,732	—	3,383,493	3,405,225
Derivative financial instruments	757	—	—	757
Deposits by customers	—	—	2,922,845	2,922,845
Amounts due to other banks	—	—	180,074	180,074
Amounts due to other Group undertakings	—	—	106	106
Other liabilities	—	—	5,368	5,368
Total financial liabilities	757	—	3,108,393	3,109,150

Notes to the financial statements continued

For the year ended 31 December

12. Financial instruments continued

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

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

13. Cash and cash equivalents

Accounting policy

Cash and cash equivalents are comprised of cash with central bank (Bank of England) and cash and advances to banks. In addition, it includes highly liquid investments that are readily convertible to known amounts of cash that 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 £000	2021 £000
Cash and balances with central bank	**1,397,062**	191,148
Cash and balances with other banks	**21,429**	30,366
Government money market fund	**13,386**	16,244
Total cash and cash equivalents	**1,431,877**	237,758

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

14. Cash flow information

14.1 Cash generated from/ (used in) operating activities

	Notes	2022 £000	2021 £000
Adjustments for non-cash items:			
– Change in expected credit losses and other credit impairment charges	10	**100,609**	41,812
– ECL on disposal of assets outside of credit risk appetite	35.1.13	**(10,291)**	—
– Change in provisions for other liabilities and charges	25	**(2)**	—
– Depreciation, amortisation and impairment	6	**6,708**	6,478
– Share option charges	29	**1,340**	1,856
– Interest on lease	20	**185**	126
– Changes to fair value adjustment of hedged risk		**1,804**	—
– Changes in fair value of financial instruments measured at FVTPL		**(7,893)**	182
– Other non–cash items		**—**	374
Total adjustments for non-cash items		**92,460**	50,828
Changes in operating assets and liabilities:			
– Loans and advances to customers		**(855,269)**	(989,435)
– Deposits by customers	24	**1,954,845**	790,177
– Financial instruments at fair value through profit or loss		**(1,489)**	(290)
– Amounts due to other banks	23	**8,672**	—
– Intercompany trading balances	17	**1,421**	—
– Prepayments and accrued income	18	**(2,518)**	(1,009)
– Accruals		**1,562**	5,441
– Other assets	19	**(26,398)**	(871)
– Other liabilities	26	**1,974**	3,546
Total changes in operating assets and liabilities		**1,082,800**	(192,441)

Notes to the financial statements continued

For the year ended 31 December

14. Cash flow information continued

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

14.2 Net debt reconciliation

	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	(180,962)	(467)	(181,429)	69,456	228,470	116,497
Financing cash flows	(978,785)	—	(978,785)	121,182	937,976	80,373
New leases	—	(3,190)	(3,190)	—	—	(3,190)
Interest expense	(5,466)	(126)	(5,592)	—	61,146	55,554
Interest payments	5,020	632	5,652	47,120	(52,771)	1
Net debt as at 31 December 2021	(1,160,193)	(3,151)	(1,163,344)	237,758	1,174,821	249,235
Financing cash flows	**(1,930,207)**	**—**	**(1,930,207)**	**1,038,991**	**750,604**	**(140,612)**
Interest expense	**(33,937)**	**(185)**	**(34,122)**	**—**	**200,049**	**165,927**
Interest payments	**30,085**	**2,297**	**32,382**	**155,128**	**(187,510)**	**—**
Net debt as at 31 December 2022	**(3,094,252)**	**(1,039)**	**(3,095,291)**	**1,431,877**	**1,937,964**	**274,550**

Notes to the financial statements
continued

For the year ended 31 December

15. Derivative 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 Bank 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 Company designates certain derivatives as hedging instruments in respect to interest rate risk in fair value hedges. The Company applies fair value hedge accounting for portfolio hedges of interest rate risk (sometimes refer to as 'macro' hedges). The hedged items are portfolios that are identified as part of the risk management process. The Company 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 hedged 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 straight-line method is used is amortised to profit or loss.

At inception of every hedge, the Company 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 Company is portfolio hedges of interest rate risk.

The following table sets out the derivative instruments held:

	2022			2021		
	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	—
Total derivatives	**318,141**	**8,346**	**757**	876	11	—

Notes to the financial statements
continued

For the year ended 31 December

15. Derivative and hedging activities
continued

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 Company'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.

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	6,867	(182)
Changes in fair value of financial assets measured at FVTPL	**6,089**	(182)

Fair value macro hedge

Interest rate risk on fixed loans (fair value hedge)

The Company 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 Company implemented a fair value macro hedging programme as part of which the Company increased the use of interest rate swaps to manage its interest rate risk. So far, the fair value macro hedging programme has been applied to fixed rate loan assets only. The Company 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 Company. 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.

Notes to the financial statements continued

For the year ended 31 December

15. Derivative and hedging activities continued

Fair value macro hedges continued

Interest rate risk on fixed loans (fair value hedge) continued

Possible sources of ineffectiveness are as follows:

- differences between the expected and actual volume of prepayments, as the Company 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; and
- mismatch in the maturities of the hedged item and hedging instrument.

The following table contains details of the hedging instruments used in the Bank's hedging strategy:

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

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

2022	Carrying amount (asset) £000	Accumulated amount of the fair value adjustments on the hedged item £000	Statement of financial position line item	Changes in fair value used for calculating hedge ineffectiveness (charge) £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 35.3.2.

Notes to the financial statements
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For the year ended 31 December

16. Loans and advances to customers

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

- unsecured personal loans;
- car finance loans (automotive hire purchase (HP) loans and personal contract purchase (PCP) loans); and
- credit cards.

Unsecured personal loans and credit cards are loans and advances to customers, while 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	1,107,435
Less: allowance for expected credit losses	(131,601)	(50,896)
Total unsecured lending	1,654,444	1,056,539
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	1,173,013

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 35. This is due to the above table representing the undiscounted contractual repayments of car finance loans, while the table in note 35 represents the maturity profile of the net investment in finance leases.

Notes to the financial statements
continued

For the year ended 31 December

17. Amounts due to and from other Group undertakings

Intercompany balances are repayable on demand.

The accounting policies on the prior year intercompany derivative are included in note 33.

2022	Income £000	Expenditure £000	Amounts due from Group undertakings £000	Amounts due to Group undertakings £000
Zopa Group Limited – trading balances	—	378	—	32
Zopa Group Limited – intercompany loan	—	784	—	74
Zopa Limited – trading balances	279	—	—	—
Total	**279**	**1,162**	**—**	**106**

All balances have been settled in full post year end.

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

18. Prepayments and accrued income

	2022 £000	2021 £000
Prepayments	**4,883**	2,439
Accrued income	**124**	50
Total prepayments and accrued income	**5,007**	2,489
Current portion	**4,872**	1,813
Non-current portion	**135**	676

19. 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 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.

	2022 £000	2021 £000
Customer receivables	25,797	1,355
Trade debtors	581	—
Others	1,980	605
Total other assets	**28,358**	1,960
Current portion	28,358	1,960

20. Right-of-use assets and lease liabilities

Accounting policy and commentary

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

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

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

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. In the absence of any borrowing history, the Company determined its incremental borrowing rate to be 10%. Lease payments are allocated between principal and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

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

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

Notes to the financial statements
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For the year ended 31 December

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

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

20.1 Right-of-use assets

	2022 £000	2021 £000
Balance as at 1 January	3,526	511
Additions	—	3,785
Depreciation charge for the year	(1,967)	(770)
Balance as at 31 December	1,559	3,526

20.2 Lease liabilities

	2022 £000	2021 £000
Balance as at 1 January	3,151	467
Additions	—	3,190
Interest charged during the year	185	126
Payments during the year	(2,297)	(632)
Balance as at 31 December	1,039	3,151
– of which is current	1,039	2,112
– of which is non-current	—	1,039

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

	2022 £000	2021 £000
Less than one year	1,039	2,112
One to two years	—	1,039
Two to three years	—	—
Three to four years	—	—
Four to five years	—	—
More than five years	—	—
Total undiscounted lease liabilities	1,039	3,151

20.3 Amounts recognised in the income statement

	Notes	2022 £000	2021 £000
Interest expense	2		
Interest on lease liabilities		(185)	(126)
Operating expenses	6		
Depreciation of right-of-use assets		(1,967)	(770)
Total amounts recognised in the income statement		(2,152)	(896)

Notes to the financial statements
continued

For the year ended 31 December

21. 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	2,425	23	2,448
Depreciation charge for the year	832	19	851
Disposals	—	(42)	(42)
Balance as at 31 December	3,257	—	3,257
Net book value	788	—	788

Notes to the financial statements continued

For the year ended 31 December

21. Property, plant and equipment continued

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

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

22. Intangible assets

Accounting policy and commentary

Banking licence

The banking licence consists of both employee costs and also other costs that have been incurred during the banking licence application process. The banking licence is considered to have an indefinite useful life due to the Company's business model requiring the banking licence to operate as a bank.

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

Notes to the financial statements continued

For the year ended 31 December

22. Intangible assets continued

Accounting policy and commentary continued

Other intangible assets

Other intangible assets include purchased and internally generated intangibles, and purchased brand. Purchased intangibles includes technology assets. Purchased intangible assets and purchased brand 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 brand £000	Purchased software £000	Internally generated £000	Banking licence £000	Total £000
Cost					
Balance as at 1 January	3,331	165	13,023	1,973	18,492
Additions	—	282	3,666	—	3,948
Balance as at 31 December	3,331	447	16,689	1,973	22,440
Accumulated amortisation					
Balance as at 1 January	3,331	101	5,708	—	9,140
Amortisation charge for the year	—	34	3,831	—	3,865
Balance as at 31 December	3,331	135	9,539	—	13,005
Net book value	—	312	7,150	1,973	9,435

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22. Intangible assets continued

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

23. 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**	101
Total amounts due to banks	**180,074**	175,193

24. 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

Notes to the financial statements
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For the year ended 31 December

25. Provisions

Accounting policy and commentary

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

The accounting policies relating to the off-balance sheet expected credit loss of financial instruments disclosed below are included in note 35.

Dilapidations relates to the cost expected to be incurred to return the property back to the landlords at their initial state when the lease ends in 2023. The FCA levy is fees due to regulators for banking service and is 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 35.

2022	**Dilapidations £000**	**FCA levy £000**	**Off-balance sheet ECL £000**	**Total £000**
Balance as at 1 January	**639**	**152**	**581**	**1,372**
Additions	**1**	**477**	**730**	**1,208**
Utilised in the year	**—**	**(477)**	**—**	**(477)**
Released in the year	**—**	**(152)**	**(581)**	**(733)**
Balance as at 31 December	**640**	**—**	**730**	**1,370**

2021	Dilapidations £000	FCA levy £000	Off-balance sheet ECL £000	Total £000
Balance as at 1 January	72	152	180	404
Additions	567	—	581	1,148
Released in the year	—	—	(180)	(180)
Balance as at 31 December	639	152	581	1,372

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.

26. Other liabilities

	2022 £000	2021 £000
Other taxation and social security	1,622	1,178
Trade creditors	1,026	1,308
Customer payables	4,248	2,583
Other creditors	191	44
Total other liabilities	**7,087**	5,113
Current portion	7,087	5,113

27. Called-up share capital

	2022 £000	2021 £000	2022 Shares	2021 Shares
Called-up ordinary share capital, issued and fully paid				
Ordinary shares of £1 each	421,319	349,319	421,319,069	349,319,069
Total called-up share capital	**421,319**	349,319	**421,319,069**	349,319,069

During the year 72,000,000 (2021: 157,000,000) £1 shares were issued and paid for by Zopa Group Limited, the Company's parent.

Notes to the financial statements
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28. Other reserves

The capital contribution reserve was formed in 2020 as a result of the Company purchasing a portfolio of loans from a P2P investor. That portfolio contained yield support commitments from Zopa Limited that the Company inherited as part of the portfolio acquisition. The agreement for yield support commitments was classified as a financial asset derivative and was measured at fair value. The second leg of that transaction was recognised in equity as a capital contribution. The yield support commitments extinguished when Zopa Limited was sold by Zopa Group Limited in February 2022. This resulted in the cash settlement of the outstanding derivative balance and transfer of the capital contribution reserve to retained losses. The accounting policies regarding the measurement of the intercompany yield support are included in note 33.

The accounting policies on the share schemes are included in note 29.

	Share schemes £000	Capital contribution £000	Total £000
Balance as at 1 January 2022	**4,562**	**1,618**	**6,180**
Share options movement	**1,340**	**—**	**1,340**
Transfer to retained losses	**—**	**(1,618)**	**(1,618)**
Balance as at 31 December 2022	**5,902**	**—**	**5,902**
Balance as at 1 January 2021	2,706	1,618	4,324
Share options movement	1,856	—	1,856
Balance as at 31 December 2021	4,562	1,618	6,180

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continued

For the year ended 31 December

29. Share schemes

Accounting policy

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

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

In the event of a modification of an award, the fair value of the original award and of the modified or replacement award is 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 Zopa Group Limited Joint Share Option Plan (JSOP), the Zopa Group Limited Non-Tax Advantaged Share Option Plan (NTA options) and the Zopa Group Limited Management Incentive Plan (MIP). They are all granted, and equity settled, by the parent company, Zopa Group Limited. In 2021, employees of the Company also provided services to other entities within the Group, and thus the share-based payment recorded in the income statement reflected the proportion of the services provided to the Company. This was not applicable in 2022.

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

2022	NTA options Number	JSOP Number	MIP Number	Total Number	Weighted average exercise price £
Balance at 1 January	1,396,909	4,841,863	7,140,000	13,378,772	3.9510
Granted	478,853	30,000	104,500	613,353	2.7874
Exercised	(134,557)	(4,128)	—	(138,685)	1.3102
Employee transfer	68,904	388,671	—	457,575	4.1807
Lapsed	(51,028)	(260,876)	(351,241)	(663,145)	3.8621
Balance at 31 December	1,759,081	4,995,530	6,893,259	13,647,870	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

29. Share schemes continued

2021	NTA options Number	JSOP Number	MIP Number	Total Number	Weighted average exercise price £
Balance at 1 January	1,232,324	1,569,905	6,657,500	9,459,729	3.4127
Granted	350,500	3,309,225	832,500	4,492,225	5.1055
Exercised	(107,090)	—	—	(107,090)	1.9844
Employee transfer	(8,273)	6,834	—	(1,439)	6.3800
Lapsed	(70,552)	(44,101)	(350,000)	(464,653)	2.3158
Balance at 31 December	1,396,909	4,841,863	7,140,000	13,378,772	3.9510
Range of exercise prices (£)	0.77-7.00	2.80-7.00	—	0.77-7.00	—
Weighted average remaining contractual life (years)	6.35	8.32	8.61	8.27	—
Exercisable options at 31 December	1,042,893	2,102,877	2,095,625	5,241,395	3.5818

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: £4.4).

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

	2022 £000	2021 £000
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 £1,340k (2021: £1,856k).

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30. Related parties

Key management personnel

IAS 24 'Related Party Disclosures' requires additional information for key management compensation. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The directors are considered to be the key management personnel for disclosure purposes. Directors' remuneration is disclosed within note 8. The share-based compensation expense recognised during the year attributable to directors amounted to £370k (2021: £755k). In total, the key management personnel compensation amounted to £2,083k in 2022 (2021: £2,164k). One executive director exercised 100,000 options during 2022. There were no share-based options exercised by directors in 2021.

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

Other transactions with related parties

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

On 10 February 2022, Zopa Group Limited, the ultimate controlling party of Zopa Bank Limited, sold Zopa Limited to Plata Holdings UK Limited ('Plata'), an affiliate of IAG Silverstripe Partners LLC. Zopa Bank Limited has agreed to service the loan portfolio sold to Plata and, as a result, has 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	—	—
Loan servicing fee income – Plata Finance Limited	1,327	—	—	—
Amount receivable from related party customer – Click Loans Limited	—	—	—	—
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 Limited	—	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.

31. Ultimate controlling party

Zopa Group Limited (UK Company number 10624955) held 100% of the issued capital of Zopa Bank Limited as at 31 December 2022 and was therefore regarded as the immediate parent undertaking. Zopa Group Limited prepares consolidated financial statements, including the results of the Company, which are available from the Companies House.

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 is the ultimate parent and controlling party as at 31 December 2022.

32. 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 car finance loans. Even though these obligations are not recognised on the balance sheet, they do contain credit risk and an allowance for ECL is calculated and recognised for them (see note 35). When these commitments are drawn down or called upon, and meet the recognition criteria as detailed in note 12, these are recognised within loans and advances to customers.

Purchase commitments represent the future minimum lease payments under non-cancellable contracts outside the scope of IFRS 16 'Leases'. Note 20 provides information on financial commitments where the Company is a lessee as per IFRS 16 'Leases'.

	2022 £000	2021 £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

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33. Fair value of financial instruments

Accounting policy

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

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

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

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	21,429	21,429	—	—	21,429
Debt securities	13,386	13,386	—	—	13,386
Derivative financial instruments	8,346	—	8,346	—	8,346
Loans and advances to customers	1,937,964	—	(1,804)	1,946,822	1,945,018
Other assets	27,038	—	—	27,038	27,038
Total financial assets	3,405,225	1,431,877	6,542	1,973,860	3,412,279
Derivative financial instruments	757	—	757	—	757
Deposits by customers	2,922,845	—	—	2,911,006	2,911,006
Amounts due to other banks	180,074	180,074	—	—	180,074
Amounts due to other Group undertakings	106	—	—	106	106
Other liabilities	5,368	—	—	5,368	5,368
Total financial liabilities	3,109,150	180,074	757	2,916,480	3,097,311

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33. Fair value of financial instruments
continued

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

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

- cash and balances with 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 estimated 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 loans lives. The fair value of the loans has been estimated by discounting those cash flows by the current appropriate market reference rate. The Company deem this to be the discount rate which exactly 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. The discount rate assumption has been sensitised below;
- credit cards loans and advances to customers have no contractual maturity and intercompany balances are repayable on demand. Therefore, their carrying value is not considered to be materially different from their fair value;

33. Fair value of financial instruments continued

- 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 completed by discounting those cash flows 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;
- 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 year end;
- derivatives held for interest risk management – These represent interest rate swaps which are carried at fair value. The fair values of derivatives are obtained from discounted cash flow models; and
- yield support derivative (£387k) included within amounts due from Group undertakings – Relates to an intercompany balance which was carried at fair value. A discounted cash flow model was used to estimate its fair value. Inputs to this model include the amortisation of the notional loan amounts, their expected life and the yield support rate, which are unobservable inputs that require management judgement.

34. Loan portfolio acquisition

In December 2021 and January 2022, the Company 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 Company to purchase loans from investors at an amount equal to their principal value.

Since each loan was purchased at their principal value, which does not represent a market transaction, the fair value of the loans does not equal the purchase price of the loans. As a result, the fair value of the loans has been estimated using IFRS 13 fair value methodology which is disclosed in note 33. No market observable inputs existed across the portfolio, and as such, they have been measured using a discounted cash flow model. Inputs into this calculation include:

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

The discount rate used in this calculation is the discount rate which exactly discounts projected cash flows of December 2021 and January 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 combined rate was deemed to be 6.86%. This assumption has been sensitised below.

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

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

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34. Loan portfolio acquisition continued

Loan acquisition initial values

	Purchase price (principal value) £m	Fair value at acquisition: 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 6.

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35. Financial risk management

35.1 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.

35.1.1 Governance around ECL allowance

The IFRS 9 ECL models used by the Company 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 Company has in place a robust governance framework around ECL allowance. The main components of that framework are as follows:

- **Board Audit Committee (BAC)** – reviews and challenges the appropriateness of significant judgements and critical estimates made by management, including the ECL allowance.
- **Board Risk Committee (BRC)** – reviews and challenges the appropriateness of the base case and outer macroeconomic scenarios, and scenario weightings used in the measurement of ECL. The committee also reviews and challenges any significant modelling assumptions and inputs.
- **Risk Management Committee (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. The 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.

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35. Financial risk management continued

35.1 Credit risk continued

35.1.2 Measurement of ECL

The approach set out in this note applies to:

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

The determination of expected credit losses is complex and requires the use of models, as exposure varies with changes in market conditions, customer behaviour and macroeconomic environment over time. We measure 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)	We have developed PD models tailored to each product type to assess the likelihood of default within the next 12 months and over the lifetime of each loan or credit card account. The models calculate estimates of PD based upon the latest payment behaviour of the customer on the Zopa product, information from the credit reference agencies (CRAs) and product-specific characteristics. The PD model also includes an estimate of the future macroeconomic effect.
Exposure at default (EAD)	We have developed an EAD model for the credit cards product to assess the likely exposure at default. The model calculates estimates of EAD based upon the latest payment behaviour of the customer, the credit limit utilisation, information from the CRAs and product-specific characteristics. For unsecured personal loans (UPL) and 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)	We have developed LGD models tailored to each product type to assess the likely financial loss given an account defaults. The models calculate estimates of LGD based on historical data on observed recoveries against defaulted accounts or benchmark information obtained from third parties. The estimates include the expected benefit of debt sales. Adjustments to these estimates are made depending on the macroeconomic scenario.
Discount rate	We use 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.

35. Financial risk management continued

35.1 Credit risk continued

35.1.2 Measurement of ECL continued

Forward-looking information

We use forecasts on key macroeconomic indicators to estimate the macroeconomic effect on PD. The key indicators that are used are employment-related metrics, 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.

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

35.1.3 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, based on peak base rate expectation of 4.5%.

Such post-model adjustment is most sensitive to interest rate. Refer to Note 35.1.8 for the sensitivity analysis.

We use 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%).

35.1.4 Significant increase in credit risk (SICR)

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

Quantitative criteria

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

Qualitative criteria

Across all products, any loan or credit card that is in forbearance is assigned to Stage 2. In UPL and car finance, any loan that is one 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.

35.1.5 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.

35.1.6 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.

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35. Financial risk management continued

35.1 Credit risk continued

35.1.7 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), we purchased a portfolio of credit-impaired loans (POCI). Expected credit losses on a POCI portfolio are not measured using the general model under IFRS 9. Instead, impairment on a POCI portfolio is determined based on full lifetime ECL. The lifetime ECL on initial recognition is included in the estimated cash flows when calculating the credit-impaired effective interest rate. Thus, no loss allowance is recognised on initial recognition. Subsequently, the reported ECL allowance on POCI loans represents the change in lifetime ECL since the purchase date.

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

35.1.8 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. The 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 two 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), the unemployment rate is expected to peak at 6% in 2024 and inflation at 11% in Q4 2022, but decreasing to 6% by Q4 2023. 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), the unemployment rate is expected to peak at 8% in 2024 and inflation to peak at slightly higher than 11% in Q1 2023, but decreasing to 9.7% by Q4 2023. 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 macroeconomic environment in the last 12 months.

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35. Financial risk management continued

35.1 Credit risk continued

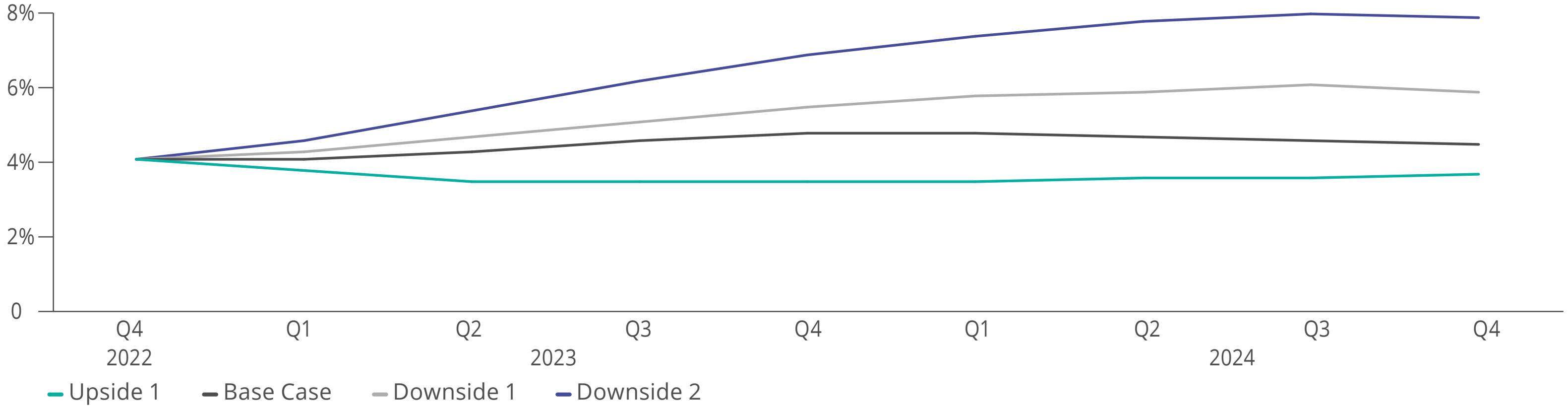
35.1.8 Multiple economic scenarios and scenario weightings continued

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%

Unemployment rate by scenario



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35. Financial risk management continued

35.1 Credit risk continued

35.1.8 Multiple economic scenarios and scenario weightings continued

Macroeconomic assumptions continued

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%
Inflation	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%

35.1 Credit risk continued

35.1.8 Multiple economic scenarios and scenario weightings continued

Sensitivity of ECL allowance

The table below shows the change in the ECL and proportion on assets in Stage 2 for each of the macroeconomic 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			1,261,118		
ECL	54.0	49.4	137.1	62.9	83.7
Proportion of assets in Stage 2	4.8%	4.6%	5.0%	7.6%	13.6%

As mentioned above, the Bank holds a post-model adjustment related to rising mortgage interest rates. The table below shows the sensitivity of ECL to rising interest rates.

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.

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

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35. Financial risk management
continued

35.1 Credit risk continued

35.1.9 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	21,429	—	21,429	—	—	—	—	21,429
– 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
– Amounts due from other Group undertakings	—	—	—	—	—	—	—	—
Other assets	27,038	—	27,038	—	—	—	—	27,038
Total	3,548,114	(141,085)	3,407,029	98,189	(730)	97,459	137,089	3,367,399

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35. Financial risk management continued

35.1 Credit risk continued

35.1.9 Maximum and net exposure to credit risk continued

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

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35. Financial risk management continued

35.1 Credit risk continued

35.1.10 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					
2022	Tier 1 £000	Tier 2 £000	Tier 3 £000	Tier 4 £000	Tier 5 £000	Total £000
On-balance sheet exposure						
Cash and cash equivalents:						
– Central banks						
Stage 1	1,397,062	—	—	—	—	1,397,062
– Other banks						
Stage 1	21,429	—	—	—	—	21,429
– 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	1,923,044	884,717	481,671	253,013	68,474	3,610,919

Notes to the financial statements continued

For the year ended 31 December

35. Financial risk management continued

35.1 Credit risk continued

35.1.10 Rating distribution continued

	Zopa risk ratings					
2022	Tier 1 £000	Tier 2 £000	Tier 3 £000	Tier 4 £000	Tier 5 £000	Total £000
On-balance sheet ECL						
Cash and cash equivalents:						
– Central banks						
Stage 1	—	—	—	—	—	—
– Other banks						
Stage 1	—	—	—	—	—	—
– Debt securities						
Stage 1	—	—	—	—	—	—
Financial assets at amortised cost:						
– Loans and advances to customers						
Stage 1	2,209	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

35. Financial risk management continued

35.1 Credit risk continued

35.1.10 Rating distribution continued

2021	Zopa risk ratings Tier 1 £000	Tier 2 £000	Tier 3 £000	Tier 4 £000	Tier 5 £000	Total £000
On-balance sheet exposure						
Cash and cash equivalents:						
– Central banks						
Stage 1	191,148	—	—	—	—	191,148
– Other banks						
Stage 1	30,366	—	—	—	—	30,366
– Debt securities						
Stage 1	16,244	—	—	—	—	16,244
Financial assets at amortised cost:						
– Loans and advances to customers						
Stage 1	312,306	494,035	261,840	83,386	—	1,151,567
Stage 2	531	1,676	6,792	46,351	—	55,351
Stage 3	—	—	—	—	14,802	14,802
POCI	78	41	192	2,469	1,945	4,725
– Amounts due from other Group undertakings						
Stage 1	1,808	—	—	—	—	1,808
Off-balance sheet exposure						
Stage 1	2,211	15,660	13,889	2,221	—	33,981
Stage 2	—	1	38	571	—	611
Stage 3	—	—	—	—	81	81
Total exposure	907,112	402,536	183,058	7,978	16,828	1,517,512

Notes to the financial statements continued

For the year ended 31 December

35. Financial risk management continued

35.1 Credit risk continued

35.1.10 Rating distribution continued

	Zopa risk ratings					
2021	Tier 1 £000	Tier 2 £000	Tier 3 £000	Tier 4 £000	Tier 5 £000	Total £000
On-balance sheet ECL						
Cash and cash equivalents:						
– Central banks						
Stage 1	—	—	—	—	—	—
– Other banks						
Stage 1	—	—	—	—	—	—
– Debt securities						
Stage 1	—	—	—	—	—	—
Financial assets at amortised cost:						
– Loans and advances to customers						
Stage 1	1,511	5,471	10,728	9,359	—	27,069
Stage 2	11	32	467	15,202	—	15,713
Stage 3	—	—	—	—	10,650	10,650
– Amounts due from other Group undertakings						
Stage 1	—	—	—	—	—	—
Off-balance sheet ECL						
Stage 1	80	254	246	—	—	580
Stage 2	—	—	1	—	—	1
Stage 3	—	—	—	—	—	—
Total ECL	1,583	5,817	11,377	24,586	10,650	54,013

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For the year ended 31 December

35. Financial risk management
continued

35.1 Credit risk continued

35.1.11 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	1,151,567	55,351	14,802	4,725	1,226,445	713	53,432

35.1.12 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	1,151,567	55,351	14,802	4,725	1,226,445
Off-balance sheet exposure	33,981	611	81	—	34,673
On-balance sheet ECL	27,069	15,713	10,650	—	53,432
Off-balance sheet ECL	580	1	—	—	581

Notes to the financial statements
continued

For the year ended 31 December

35. Financial risk management
continued

35.1 Credit risk continued

35.1.13 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	1,151,567	27,069	55,351	15,713	14,802	10,650	4,725	—	1,226,445	53,432
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 risk parameters	—	7,853	—	947	—	—	—	—	—	8,800
Change in ECL methodology	—	1,132	—	(1,481)	—	660	—	—	—	311
New lending and purchased assets	1,288,331	19,686	131,448	36,007	26,488	19,636	1,836	263	1,448,103	75,592
Redemptions and repayments	(521,049)	(10,327)	(32,466)	(2,796)	(5,568)	(1,314)	(1,077)	56	(560,160)	(14,381)
Disposal of assets outside of credit risk appetite	(14,102)	(1,058)	(6,167)	(3,644)	(7,462)	(5,592)	(1,673)	3	(29,404)	(10,291)
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	643,289	11,855	161,156	37,660	50,945	37,804	(982)	334	854,408	87,653
ECL charge to the income statement	—	11,855	—	37,660	—	37,804	—	334	—	87,653
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	—	5,592	—	(3)	—	10,291
Positive provision on POCI loans	—	—	—	—	—	—	—	(1,398)	—	(1,398)
Total loans and advances ECL charge to the income statement	—	12,913	—	41,304	—	47,459	—	(999)	—	100,677

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For the year ended 31 December

35. Financial risk management
continued

35.1 Credit risk continued

35.1.13 Movement in total exposures and the corresponding ECL continued

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

35.1 Credit risk continued

35.1.14 Collateral analysis

We hold collateral against car finance loans in the form of motor vehicles. The tables below set out our exposure and ECL allowance (note 16) 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	
2022	Exposure £000	ECL £000	Exposure £000	ECL £000	Exposure £000	ECL £000	Exposure £000	ECL £000	Exposure £000	ECL £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	
2021	Exposure £000	ECL £000	Exposure £000	ECL £000	Exposure £000	ECL £000	Exposure £000	ECL £000	Exposure £000	ECL £000
Less than 50%	2,573	16	34	2	8	4	—	—	2,615	22
50% to 70%	8,659	60	222	31	19	10	8	—	8,908	101
70% to 80%	10,740	87	259	38	12	6	2	—	11,013	131
80% to 90%	20,299	183	415	46	214	109	62	—	20,990	338
90% to 100%	35,886	397	1,618	260	575	297	151	—	38,230	954
Greater than 100%	34,813	442	1,734	286	510	262	197	—	37,254	990
Total	112,970	1,185	4,282	663	1,338	688	420	—	119,010	2,536

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35. Financial risk management
continued

35.1 Credit risk continued

35.1.15 Credit risk for other financial assets

Credit risk exists where we have acquired securities or placed cash deposits with other financial institutions as part of our treasury portfolio of assets. We consider the credit risk of treasury assets to be relatively low. No assets are held for speculative purposes or actively traded. Certain liquid assets are held as part of our liquid asset buffer. At 31 December 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 £000	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000
Cash and cash equivalents:								
– Central banks	**—**	—	**1,397,062**	191,148	**—**	—	**1,397,062**	191,148
– Other banks	**—**	—	**—**	—	**21,429**	30,366	**21,429**	30,366
– Debt securities	**13,386**	16,244	**—**	—	**—**	—	**13,386**	16,244
Total	**13,386**	16,244	**1,397,062**	191,148	**21,429**	30,366	**1,431,877**	237,758

35.2 Market risk

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

35. Financial risk management continued

35.2 Market risk continued

35.2.1 Repricing analysis

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

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	—	21,429	—	—	—	—	21,429
– Debt securities	—	13,386	—	—	—	—	13,386
Derivative financial instruments							
– 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
– Amounts due from other Group undertakings	—	—	—	—	—	—	—
Other assets[1]	27,038	—	—	—	—	—	27,038
Total assets	**27,038**	**1,562,075**	**13,365**	**50,398**	**1,731,255**	**21,094**	**3,405,225**
Derivative financial instruments							
– Derivatives in accounting hedge relationships	—	—	—	757	—	—	757
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	—	180,074	—	—	—	—	180,074
– Amounts due to other Group undertakings	106	—	—	—	—	—	106
Other liabilities[2]	5,368	—	—	—	—	—	5,368
Total liabilities	**5,474**	**2,031,255**	**390,631**	**400,826**	**280,137**	**827**	**3,109,150**
Interest rate sensitivity gap	21,564	(469,180)	(377,266)	(350,428)	1,451,118	20,267	296,075
Cumulative gap	**21,564**	**(447,616)**	**(824,882)**	**(1,175,310)**	**275,808**	**296,075**	**296,075**

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

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35. Financial risk management continued

35.2 Market risk continued

35.2.1 Repricing analysis continued

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

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

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35. Financial risk management
continued

35.2 Market risk continued

35.2.2 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)

35.3 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.

35.3.1 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
Cash at central bank	**1,397,062**	191,148
Unencumbered cash and bank balances	**9,056**	27,686
Government money market fund	**13,386**	16,244
Total liquid assets	**1,419,504**	235,078
Add: encumbered cash and bank balances	**12,373**	2,680
Total cash and cash equivalents	**1,431,877**	237,758

Notes to the financial statements
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For the year ended 31 December

35. Financial risk management
continued

35.3 Liquidity risk continued

35.3.2 Contractual maturity

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

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	21,429	21,429	—	—	—	—	—	—
– Debt securities	13,386	13,386	—	—	—	—	—	—
Derivative financial instruments								
– 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
– Amounts due from other Group undertakings	—	—	—	—	—	—	—	—
Other assets[1]	27,038	—	27,038	—	—	—	—	—
Total assets	3,405,225	1,432,667	31,170	10,361	45,967	1,739,561	21,094	124,405
Derivative financial instruments								
– Derivatives in accounting hedge relationships	757	—	—	—	—	757	—	—
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	—	—
– Amounts due to other Group undertakings	106	—	106	—	—	—	—	—
Other liabilities[2]	5,368	—	5,368	—	—	—	—	—
Total liabilities	3,109,150	829,898	1,056,831	390,631	400,069	430,894	827	—
Liquidity gap	296,075	602,769	(1,025,661)	(380,270)	(354,102)	1,308,667	20,267	124,405
Cumulative liquidity gap	296,075	602,769	(422,892)	(803,162)	(1,157,264)	151,403	171,670	296,075

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

35. Financial risk management continued

35.3 Liquidity risk continued

35.3.2 Contractual maturity continued

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

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

Notes to the financial statements
continued

For the year ended 31 December

35. Financial risk management
continued

35.4 Residual value risk

The principal risk arising from the Company's car finance personal contract purchase (PCP) agreements relates to the non-realisation of the full amount of the residual values (RV), set by the Company at the inception of its agreements. Under PCP, the customers can exercise their right to return the vehicle 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 PCP contract, the Company uses latest industry data and determines the future expected car value to calculate RV 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 Company manages this risk by periodically monitoring the RV estimates of the portfolio, using industry data provided by a third party. Changes in future expected car value at revaluation are used to derive the updated RV 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 Company has estimated its future RV exposure on PCP agreements as follows:

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

35.5 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 £000
Common equity tier 1 (CET1)		
Called-up share capital	**421,319**	349,319
Other reserves	**5,902**	6,180
Retained losses	**(127,614)**	(103,244)
Less: intangible assets	**(9,435)**	(9,352)
Total CET1 capital	**290,172**	242,903
Total capital resources	**290,172**	242,903

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

Notes to the financial statements continued

For the year ended 31 December

36. Post balance sheet events

On 31 January 2023, Zopa Group Limited made a £50m equity injection into Zopa Bank Limited in exchange for 50m of ordinary shares.

On 29 March 2023, Zopa Bank Limited acquired a £41m 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 £38m.

Additional information

What's in this section

Alternative performance measures

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 under Total Revenue) would be at December levels.

	2022 £m	2021 £m
Total revenue in the month of December	**16.5**	9.2
Annualised revenue run rate (December x 12 months)	**198.0**	110.4

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.

	Note	2022 £m	2021 £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 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.

	Note	2022 £m	2021 £m
Expected credit loss allowance and similar charges	10	**100.6**	41.8
Average gross loans and advances to customers		**1,735.0**	525.1
Cost of risk		**5.8%**	8.0%

Cost-to-income ratio

Operating expenses as reported in the statement of comprehensive income divided by net interest income plus net fee and commission expense as reported in the statement of comprehensive income.

	Notes	2022 £m	2021 £m
Operating expenses	6	**75.6**	57.6
Net interest and fee and commission expense	2,3	**165.2**	54.8
Cost-to-income ratio		**45.8%**	105.1%

Loan-to-deposit ratio

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

	Notes	2022 £m	2021 £m
Loans and advances to customers	16	**1,938.0**	1,173.0
Deposits from customers	24	**2,922.8**	968.0
Loan-to-deposit ratio		**0.7**	1.2

Alternative performance measures
continued

Alternative performance measures and key ratios (unaudited)
continued

Net interest margin

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

	Note	2022 £m	2021 £m
Net interest income	2	**166.1**	55.7
Average gross interest-bearing assets		**2,329.0**	650.8
Net interest margin		**7.1%**	8.6%

Profit/(loss) before tax on adjusted basis

Our statutory loss before tax is based on the applicable financial reporting framework (IFRS as detailed in note 1.2), which includes measurement of credit impairments using the IFRS 9 expected credit loss model (explained in note 35.1). Whilst this is the primary measure used to evaluate performance of the Bank's portfolios, we also evaluate performance with reference to profit or loss on adjusted basis. This metric replaces the expected credit loss model with an incurred loss model. The incurred loss impairment is based on losses from an objective loss event in the period, whereas the expected credit losses also take into account supportable forecasts about future events. We consider the profit or loss on an adjusted basis to be a useful additional alternative performance measure as it provides a clear view on the performance of the loan book for the reporting period. The impact of ECLs, which requires a provision for future events to be recognised when the loan is originated, can be disproportionate on a growing loan portfolio. This measure also enables improved comparability against peer companies reporting under alternative financial reporting frameworks that still use an incurred loss model for impairment of financial assets.

How we calculate incurred loss

Incurred loss impairment is calculated where there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows from the asset that can be reliably estimated. Incurred loss is based on a collective assessment for impairment. Loans are grouped together by product type and similar credit risk characteristics. For each loan group, future cash flows are estimated using historical loss experience. There are two elements of the adjustment, one for loans where there is observed evidence of loss ('observed loss'), and the second to take into account that there will be accounts that although no loss is observed, at the reporting date, based on past experience, an impairment event has already taken place that will be observed during the emergence period, and which are therefore impaired now ('the identified but not observed loss').

Observed loss

Loans for which evidence of potential loss have been specifically identified are grouped together for the purpose of calculating the impairment for observed losses. These are non-performing, or defaulted loans, where the definition of default is consistent with that in the IFRS 9 ECL model (effectively all Stage 3 accounts).

The impairment for observed losses is the product of outstanding balances at the point of default and the loss given default (LGD) based on historic experience.

Alternative performance measures continued

Alternative performance measures and key ratios (unaudited) continued

Profit/(loss) before tax on adjusted basis continued

How we calculate incurred loss continued

Identified but not observed (IBNO) loss

Loans for which no evidence of loss has been specifically identified are grouped together according to product and risk characteristics for the purpose of calculating the impairment for incurred but not observed (IBNO) losses. IBNO is calculated for loans that are (a) performing and there is no evidence of loss, but because the loans that are not yet past due are known from past experience to have deteriorated since the initial decision to lend was made, or (b) delinquent and not classified as non-performing. The impairment loss calculation is the product of the probability of default (PD) over the emergence period (EP) and the loss given default (LGD) based on historic experience and ignoring any forward-looking assumptions.

The emergence period is the time it takes to identify a loss event, after an impairment event has already taken place for a specific loan. The emergence period is taken into consideration for up-to-date (UTD) and delinquent accounts in the IBNO segment. We use a 3-month emergence period for UTD unsecured personal loans and credit cards, and a 2-month EP for car finance. For all delinquent accounts, we use a 12-month emergence period.

Profit or loss on adjusted basis is calculated by taking the statutory profit or loss before tax for the financial year as reported in the statement of comprehensive income, adding back the expected credit losses charge for the period based on IFRS 9 basis, and deducting credit impairment charges based on incurred loss basis for the period.

	Notes	2022 £m	2021 £m
Loss before tax		**(26.0)**	(34.2)
Add: ECL charge to the income statement before write-offs and POCI	35.1.13	**87.7**	40.8
Less: credit impairment charge based on incurred losses		**(51.6)**	(18.3)
Profit/(loss) before tax on adjusted basis		**10.1**	(11.7)

The credit impairment coverage ratio under the adjusted basis and IFRS 9 approach are as follows:

	2022	2021
Coverage ratio based on the adjusted model	**3.7%**	1.7%
Coverage ratio based on the IFRS 9 approach	**6.7%**	4.4%

Total revenue

Total net interest income and fee and commission income.

	Notes	2022 £m	2021 £m
Net interest income	2	**166.1**	55.7
Fee and commission income	3	**8.1**	2.4
Total revenue		**174.2**	58.1
Total revenue growth		**116.1**	51.3

Glossary of terms (unaudited)

Term	Definition
Active customers across all products	Active customer is defined as follows: • UPL & car finance: customer with loan balance >£0, and their balance is not in default. • Credit cards: customers who have transacted (spent/made a repayment) with credit card in last 90 days, and their balance is not in default. • Savings: includes customers with an open savings account, and their balance is >£0.
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 expense as reported in the statement of comprehensive income.
Coverage ratio	Total expected credit losses allowance divided by total gross loans and advances to customers.

Term	Definition
Customers maintain or improve their credit score	% of customers who maintained or improved their credit score year-on-year (>=0)
Employee engagement score	We measure our engagement score as a weighted average of responses to three key questions: (a) I would recommend Zopa as a great place to work; (b) I rarely think about looking for job at another company; and (c) Zopa motivates me to go beyond what I would in a similar role elsewhere.
Expected credit losses allowance	Expected credit loss allowance deducted from loans and 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.
HQLA/deposit ratio	The amount of high quality liquid assets (HQLA) divided by the total deposits. Liquid assets include Zopa's reserves at Bank of England, holdings of government debt securities and investments in money market funds.

Glossary of terms (unaudited)
continued

Term	Definition
Leverage ratio	The amount of institution's capital divided by total exposure, in accordance with the PRA's CRR rules (Leverage Instrument 2021). The leverage ratio is expressed as a percentage.
Liquidity coverage ratio	The amount of unencumbered high quality liquid assets (HQLA), divided by total net stressed liquidity outflows over a period of 30 days.
Loan-to-deposit ratio	Net loans and advances to customers expressed as a percentage of total deposits from customers.
Loss after tax	Loss after tax as reported in the statement of comprehensive income.
Loss before tax	Loss before tax as reported in the statement of comprehensive income.
Net fee and commission income	Net fee and commission income as reported in the statement of comprehensive income.
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.
Net stable funding ratio (NSFR)	The amount of available stable funding divided by the amount of required stable funding, in accordance with the PRA's CRR rules. The NSFR is expressed as a percentage.
Number of credit card customers	Total number of credit card customers at year end with an open account.

Term	Definition
Number of full-time employees	Total number of full-time employees on the Company's payroll at year end.
Number of new credit cards issued in the year	Total number of new credit cards opened during the financial year.
Number of savers	Number of unique customers with an open FTS or Smart Saver account as of 31 December 2022, including those with £0.00 balance.
Operating expenses	Operating expenses as reported in the statement of comprehensive income.
Overall net promoter score	This is a weighted average net promoter score taken across all our products, weighted by number of customers per product. This customer loyalty and satisfaction measurement is taken from asking customers how likely they are to recommend our product or service to others. Reported NPS are those as at year end.
Percentage recommending Zopa as a great place to work	The proportion of our employees who would recommend Zopa as a great place to work.
Proportion of customers using Borrowing Power	The proportion of our customers across all products who use our Borrowing Power tool.

Glossary of terms (unaudited)
continued

Term	Definition
Risk-weighted assets	On and off-balance sheet assets and exposures weighted according to the PRA's Capital Requirement Regulation (CRR) and Capital Requirements Directive (CRD) rules.
Total deposits	Total deposits from customers as reported in the statement of financial position.
Total equity	Total shareholders' equity as reported in the statement of financial position.
Total loans and 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 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 Zopa tool in last 3 months. • App or Web: customers who have logged into the app or web in the last 3 months

Term	Definition
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.

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