ZOPA BANK

ZOPA BANK LIMITED
ANNUAL REPORT
AND ACCOUNTS 2023

What's in this report?

Trustpilot ★★★★★

4.5 score based on 22k reviews as at 31 December 2023.

Zopa award wins in 2023:

Fintech Awards London – **Fintech of the Year**

AltFi Awards – **Fintech of the Year**

AltFi Awards – **People's Choice Awards**

British Bank Awards – **Best Personal Loans Provider**

Savings Champion – **Award for Simple Savings**

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

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

Personnel Today Awards – **Employee Experience Award**

Business Culture Awards – **Best Wellbeing Initiative for Business Culture**

Pay 360 Awards – **Best Partnership and Collaborative Initiative for Fintech Pledge**

AltFi Awards – **CEO of the Year**

AltFi Awards – **Special Industry Collaboration for Zopa Bank's CEO Jaidev Janardana**

Newsweek – **2nd Most Loved Company in the UK**

Who we are, and our mission

Why we exist

At Zopa, we're building Britain's best bank by helping customers to control their money intuitively from the palm of their hand, through a range of fair products designed to offer great value and personalised experiences that are built with their real needs in mind.

Our mission

We're on a mission to make a brighter financial future a reality for customers by offering them a better all-round banking experience, no matter who they are or where they're at in life. We make decisions by truly understanding the complicated reality of people's finances today, and never underestimate the transformational impact our products can have on their lives. We've worked hard to create a sustainable and profitable business model which has allowed us to consistently attract ongoing capital to fuel our continued growth.

How we do it

We hold a strong belief that every customer should feel totally comfortable to have chosen us as their bank. That's why our products and services are always designed to be easy, intuitive and trustworthy. So that regardless of what product people choose from Zopa or where they start their journey, customers always have peace of mind with us.

Strategic report

What's in this section

Zopa Bank at a glance

An **exceptional** year.
Building a **profitable bank.**

Profit/(loss) before tax

2023

£15.8m

2022: £26.0m (Loss before tax)

Total operating income

2023

£222m

2022: £151m YoY: +48%

Annualised revenue run-rate[1]

2023

£253m

2022: £198m YoY: +28%

Cost-to-income ratio

2023

38.7%

2022: 45.8% -7.1 percentage points

Net interest margin

2023

5.3%

2022: 7.1% -1.8 percentage points

1. Refer to alternative performance measures on page 181.

Zopa Bank at a glance continued

Serving a large and growing **customer base.**

Total customers[1]

2023

1,100,000

2022: 847,000[1] YoY: +30%

Gross new lending[2]

2023

£1.64bn

2022: £1.60bn YoY: +2%

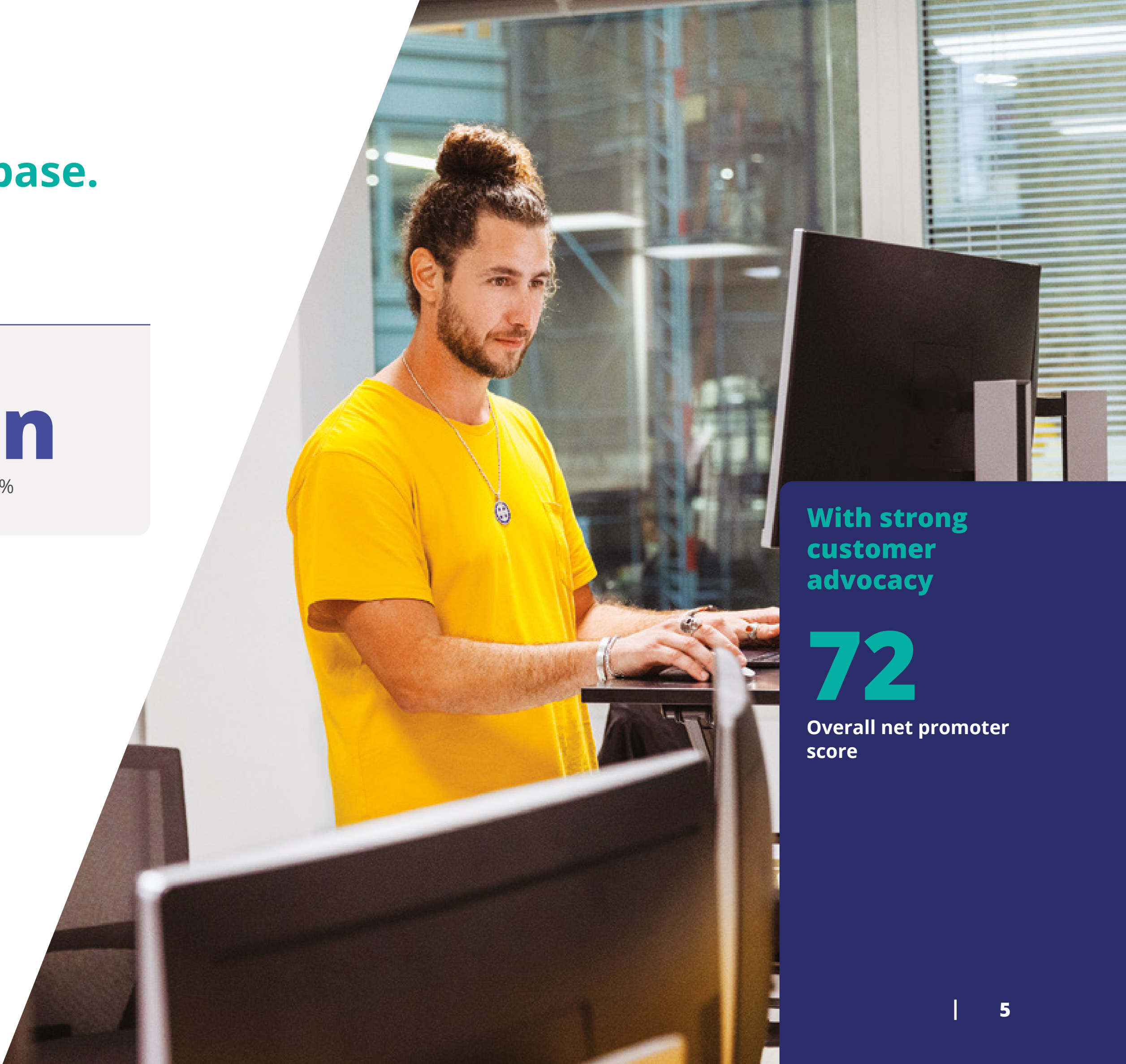
Total deposits

2023

£3.4bn

2022: £2.9bn YoY: +14.9%

1. The comparative 2022 number of customers has been restated to align with a new approach used internally to monitor and report customer numbers. The number reported in the 2022 Annual Report was 868,000.
2. Gross new lending excludes any peer-to-peer loans acquired by Zopa Bank following the sale of Zopa Limited by Zopa Group in February 2022.



With strong customer advocacy

72

Overall net promoter score

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

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 product, allowing savers to boost their pots to a term and interest rate that works for them

2023

Zopa Bank reached **full-year profitability for the first time**

Zopa Group acquired the lending business and technology assets of DivideBuy, and the Bank subsequently launches **its point-of-sale lending product**

In savings, Zopa **launches Smart ISA**, its cash ISA product, and **new money management features in the Zopa app**

Our products

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

Borrow

Unsecured personal loans

Car finance

Secured used car loans on hire purchase and personal contract purchase

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

Spend

Credit cards

Point-of-sale

Offering interest-free and interest-bearing credit

- Transparency on acceptance, rate and credit limit
- Credit Cushion for emergencies
- Real-time spend and balance alerts
- Spread the cost of goods and services easily over monthly instalments
- Streamlined application form and seamless user interface
- High conversion and approval rates

Manage

Zopa app

- Introduced new features in the Zopa app through Zopa Account, which leverages open banking to manage and make payments between external accounts seamlessly in one place
- Borrowing Power provides actionable insights that directly link behaviours to lending outcomes, including pre-approved, real-rate offers for loans and credit cards
- Zopa app drives 20% of originations for unsecured personal loans and 5% for credit cards

Save

Fixed-term savings

Award-winning way to save

Smart Saver

Boost your way to smarter savings through easy access, notice and Smart ISA pots.

- Open an account in minutes and get started from £1 for Smart Saver
- Digital experience, allowing savers to boost their pots to a term and interest rate that works for them

Be in control

The Zopa app

The hub of Zopa, rated 4.9 stars on Apple Store and 4.7 on Google Play

App Store 4.9★

Google Play 4.7★

Chief Executive Officer's letter

Jaidev Janardana
Chief Executive Officer

"2023 was a landmark year, as we achieved full-year profitability with over a million customers while maintaining our market-leading net promoter score."

We launched Zopa Bank in 2020 to fight complexity and unfairness in financial services. We're passionate about fundamentally changing the relationship between people and their money for the better. Our ambition is that every Zopa product provides not only good value, but also an overall experience that is welcoming, intuitive and reassuring. To make this happen, Zopa leverages proprietary technologies, innovative product development and a customer-first mindset to create better financial solutions. We're already one of the UK's leading digital banks, with a market-leading net promoter score from over a million customers while also delivering profitability. This stands us in good stead to pursue our aim of being the best bank in Britain, one that delivers both for its customers and its shareholders.

Delivering for our customers

Our customers have continued feeling the effects of the cost-of-living crisis, with inflation and interest rates remaining high for most of 2023. Many of our customers have seen increases in rent or mortgage payments.

It's therefore no surprise that customers are paying more attention to their finances than ever before. Many want a bank that can be relied on to lend responsibly, with fairly priced credit, and to provide strong returns on their savings, supporting their financial journey.

In 2023, we've made further progress on solving the problems our customers are facing:

In lending, we've lent to more people while reducing the rate of customers falling behind on payments. Loans on balance sheet grew to £2.7bn in 2023, representing year-on-year growth of 27%. Since 2015, we've been a pioneer in using artificial intelligence to make lending decisions, and last year, we launched our next generation credit models that have delivered 15% lower risk and allowed us to expand our lending growth by 14%.

Chief Executive Officer's letter continued

Delivering for our customers continued

Our proprietary technology and credit models allow us to continually monitor and refine our credit policy quickly, responding in an agile way to the external environment. As a result, year-on-year credit performance has improved.

In 2023, we expanded our lending offering to Buy Now, Pay Later (BNPL), through the Group's acquisition of DivideBuy's lending and technology capabilities, focusing on larger average order value segments. Leveraging DivideBuy's technology, we now offer our customers an easy, integrated digital product, without the industry's issues around affordability and responsible lending.

In savings, 81,000 more customers chose to entrust us with their money, helping us reach £3.4bn in total deposits across our multi-award-winning savings products. In 2023, we've continued to offer competitive rates that are generally significantly higher than the four biggest UK banks, where most savings reside. We've also launched Smart ISA, allowing customers to benefit from the associated tax-free allowance, and diversified our channels through partnerships. Thanks to the rich, innovative and great value experience we provide, in just over three years, we've built a robust deposit franchise with stable funding costs, allowing us to offer competitive pricing to our borrowers.

We've also made big investments in our Zopa app to serve more customer needs. Customers tell us that they're 'over-apped' and 'over-banked', and we want to end this fragmentation. So, in Q4 2023, we launched new features in our mobile app to simplify their financial lives, leveraging open banking to the fullest. Our customers can now see, manage and move money across all their different accounts from one place: the Zopa app.

Delivering for our shareholders

Our focus on the customer and building great products is reflected in our financial results and feeds our growth. In 2023, we achieved £15.8m in profit before tax, while growing total operating income by 48% year-on-year, reaching £222m. It's important to note this result isn't based on riding the tailwinds of the higher interest rate environment. Analysis indicates that our business profitability would likely improve marginally under a falling rate environment due to the improved disposable income for borrowers.

Our strong analytical capabilities enable us to offer competitive borrowing and saving rates while we sustain strong unit economics and keep our cost of risk stable. Meanwhile, our technology allows us to offer straightforward experiences at speed and to operate efficiently, further driving our cost-to-income ratio down to 38.7%.

Chief Executive Officer's letter continued

Delivering for our shareholders continued

Our growth last year has only been possible thanks to the continued support of our shareholders. In 2023, the Group completed two capital raises, with £75m common equity tier 1 capital in January, and £75m of tier 2 capital in August. This demonstrates strong validation of our strategy and financial performance to date.

You can read more about our financial performance in the 'Financial review' on page 17.

Delivering for Zopians and our society

Our people represent our strongest competitive advantage. In 2023, we were Newsweek's second most loved workplace in the UK and won the Employee Experience Award from Personnel Today. This reflects the investments we've been making in our people, including a more comprehensive benefits offering and the continuation of our cost-of-living support for eligible employees.

I wrote last year about launching the 2025 Fintech Pledge with ClearScore to drive 10 million positive financial actions for our customers by 2025. I'm delighted to say that at the end of 2023, we've already reached that goal, with a member base of 47 companies. As such, we've made the goal more ambitious for 2025 and will aim to reach 25 million positive financial actions.

Looking ahead

Since we launched as a fully operational bank three years ago, we've come a long way in our mission to become Britain's best bank.

But our journey is only just beginning. Across all our products, the opportunity is huge. In 2024, we'll focus on adding more features and capabilities to our existing products and continue to build the Zopa Account that offers ease and great value, all in one place. We'll also remain focused on efficiency through the launch of new artificial intelligence tools to fuel our productivity.

I would like to thank our Zopians for their incredible work this year and our shareholders for their continued support. Last, but not least, I want to thank the Chair of our Bank Board, Peter Herbert, who stepped down from the Board in October 2023. Peter was the first Chair of Zopa Bank, and he guided us through the licence application and subsequently the successful launch of the Bank.

On behalf of the Board of Directors,

Jaidev Janardana
Chief Executive Officer

10 April 2024

Our business model and strategy

In 2023, we expanded our product range to **meet the needs** of our 1m+ customers.

Borrowing and saving are central to a customer's financial wellbeing and is where we focus our efforts on making a real difference. Our business model and strategy relies on providing affordable, fairly priced credit in the form of unsecured personal loans (UPLs), car finance, credit cards and more recently, point-of-sale (PoS) finance at checkout. These are funded primarily by retail savings that give competitive returns to our savers.

These markets are large: over £200bn in our lending segments and £1.8tn 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.

To date, we've only scratched the surface of the growth that's possible in our lending segments.

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

Our differentiation is underpinned by our three core capabilities: a customer-centric culture, lending expertise and use of technology and data. Together, these capabilities create an exceptional digital experience to help customers reach their financial goals.

Each of these three ingredients contains critical elements for differentiating our customer experience. When customers join us, they experience the best aspects of both incumbent high street banks and modern neobanks in one compelling customer proposition.

How we do things differently

Customer-centric culture

Lending expertise

Use of technology and data

Each of these three ingredients contains critical elements for differentiating our customer experience.

Our business model and strategy continued

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 the product to servicing at every step of the journey. That's why more than 1 million customers choose us to meet their needs.

In 2023, we focused on taking our customer-centric culture to new products. In savings, we built on the success of our award-winning Smart Saver product, by launching Smart ISA, using the same concept of pots to earn tax-free interest. In the Zopa app, we built new features to allow customers to see and manage all aspects of their financial lives in one place. In our borrowing products, we continued to combine pre-approvals with transparent (guaranteed) rates, instant decisioning and fast disbursals. That's a key reason for customers returning to us more than once, with 36% of customers reborrowing.

In 2023, we brought these features to a new market: point-of-sale (PoS). We plan to grow this considerably over the next few years, allowing customers to benefit from using responsible credit to fund large cost purchases.

Once a customer joins us, we make servicing straightforward. We're rated 4.9 out of 5 on Apple's App Store, 4.7 out of 5 on Google Play and 4.5 out of 5 on Trustpilot. We continued to maintain a strong net promoter score of 72, despite delivering 30% growth in customers, demonstrating our ability to maintain high levels of service as we scale. We've also won numerous awards including the People's Choice Award (AltFi) and Fintech of the Year (Fintech Awards). Many of our awards have been voted for by our customers.

Lending expertise

Unlike other neobanks, we can leverage Zopa Group's long lending history and through-the-cycle data, which includes the 2008 financial crisis, the COVID-19 pandemic and, more recently, the cost-of-living crisis. Using this data, we've made responsible lending decisions, built our balance sheet and achieved positive returns on all our lending cohorts. In 2015, we became the first mainstream lender to deploy machine learning models for credit decisioning. In 2023, as part of our ongoing refinement, we launched our next generation credit models. This continued to support enhanced risk performance. By being at the cutting edge of lending, we can make more nuanced decisions, accept more customers and drive better returns than our peers.

Since the Bank's launch, we've originated over £4.3bn in our four lending categories, with £2.5bn in gross loans on balance sheet at the year end.

In 2023, following Zopa Group's acquisition of DivideBuy's lending business and technology assets, the Bank launched its PoS product offering interest-free and interest-bearing credit.

Use of technology and data

Our proprietary technology has been developed in-house. We leverage cloud technologies, enabling us to offer market-leading experiences in an efficient, scalable and resilient manner. It also means we can plug and play into a wide range of partners to support our product experience, distribution and growth. Our technology architecture provides us with flexibility and control over our products, including the end-to-end customer experience, allowing us to react quickly to changing customer needs.

As technology advances, we continue to be at the forefront. In 2024, we'll have a dedicated team focused on deploying new technologies such as generative artificial intelligence across all functional areas to drive further enhancements in efficiency and productivity. We believe there are real opportunities for gains, particularly in software engineering and operations.

As our digital model scales, we benefit from economies of scale, and in 2023, this allowed us to reduce our cost-to-income ratio by 7.1 percentage points to 38.7%.

Business review

Loans

Unsecured personal loans (UPLs)

Due to the economic environment, we continued with our credit tightening and sustained gross new lending at £1.3bn in unsecured personal loans, a steady year-on-year performance.

This has been achieved with improved acquisition through our Zopa app and deep integrations with many market aggregators, where we continue to price competitively, particularly against peers which aren't retail deposit funded. This year, gross new lending volumes have also been supported through our partnership with a major UK retailer, white-labelling loans on their behalf. This partnership, initially deployed through our aggregator partners, allows more customers to benefit from our award-winning experience.

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 44 and an average income of around £48,000. They choose us because we offer a quick application process combined with our strong reputation for an outstanding digital experience that provides certainty of approval, with real rates and rapid disbursals, all backed by excellent customer service.

Point-of-sale (PoS)

In 2023, Zopa Group acquired DivideBuy's lending business and technology assets.

The Bank launched into the PoS market, offering seamless integration at checkout, an award-winning user experience and instant credit decisioning.

The Bank offers short-term interest-free credit on larger purchases, and this has been expanded to include longer-term purchases through both interest-free and interest-bearing credit. Within PoS, the Bank's main lending segments focus on large average value items including home furnishings, mattresses and veterinary services.

By year end, PoS had grown to over 68,000 customers across 700 merchants.

Car finance

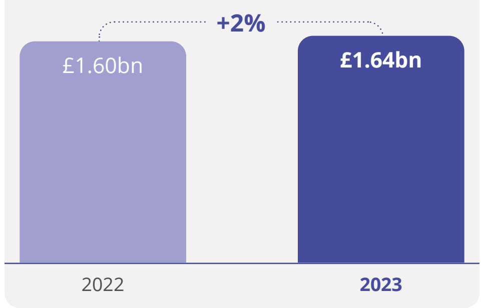
We provide car finance on used cars through hire purchase (HP) and personal contract purchase (PCP). We've applied our digital principles of ease, certainty and speed through our organic direct-to-consumer product as well as through our integrations with brokers and dealers.

In 2023, most of our customers found us through brokers, with the rest through our direct-to-consumer and direct-to-dealer channels.

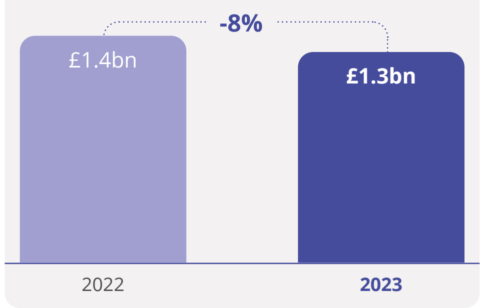
The direct-to-dealer channel represents most of the total used car finance market, presenting a large market where we have the most opportunity to make a real difference in terms of customer outcomes. As the car market continues to evolve into an omnichannel model, the direct-to-dealer channel allows us to benefit from the digital evolution of traditional car buying as we sign up to more dealerships.

2023 continued our long-term trend of growth in this product, originating £282m, up 14% year-on-year. HP provides most of these originations, with PCP growth being limited due to our cautious approach on future values.

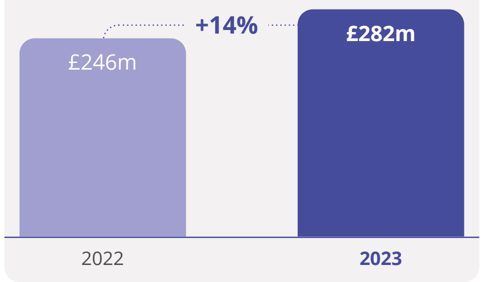
Total gross new lending[1]



Gross new lending: UPLs



Gross new lending: Car finance



1. Gross new lending includes UPLs, PoS and car finance and excludes any peer-to-peer loans acquired by Zopa Bank following the sale of Zopa Limited by Zopa Group in February 2022.

Business review continued

Loans continued

Car finance continued

As our car finance product is secured, it experiences low loss rates given it typically features high on a borrower's payment hierarchy. On average, a typical customer is aged 39, with an average income of around £38,000.

Credit cards

We launched our credit card product in 2020 initially to reach those customers who need credit but have traditionally been very poorly served by their incumbent providers. We leveraged our digital capabilities here too, creating a credit card with unique features to put customers back in control.

This includes Credit Cushion, which allows customers to reserve some of their available credit balance for life's surprises. As standard, we provide spending analytics, use of the card for fee-free spending abroad and instant spend notifications with real-time balance updates. In 2022, we launched our Balance Transfer product, and across 2023, this continued to support overall growth, aiding customers in consolidating their debts.

Customers find our credit cards through Borrowing Power in the app or through our integrations with aggregators. When applying, customers receive a transparent rate and credit limit, removing any uncertainty before proceeding.

Our credit card is primarily aimed at those looking to build their credit score. On average, customers are aged 41 and earning £39,000.

We continued to be prudent with credit policy in cards due to the economic environment and invested significantly in our infrastructure and platform to provide a better experience to customers. Overall, card volumes were slightly below those in the previous year, with 163,000 new card accounts originated (200,000 in 2022).

Savings

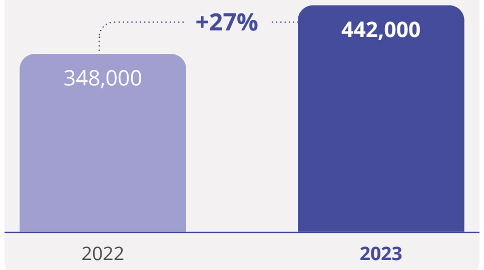
Smart Saver

Smart Saver is our award-winning savings product covering easy access, notice and ISA, allowing customers to choose based on their needs. It enables savers to create personalised pots, and to 'boost' them into a notice period or a longer fixed-term period (for ISA only). With rising interest rates, the savings market has been highly competitive during 2023.

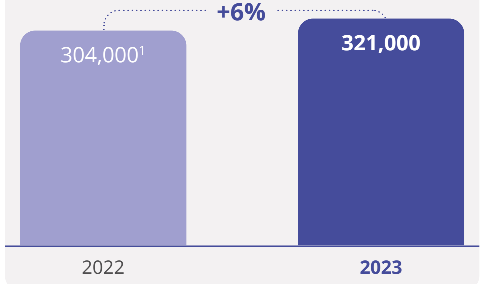
However, with the cost-of-living crisis, we made it our priority to provide savers with a competitive interest rate, on both easy access and our boosted pots, encouraging them to save for their future goals.

In June 2023, we expanded Smart Saver to include Smart ISA, which as a flexible ISA type, allows savers to take out money when they need it and put it back in as many times as they like within the same tax year, without impacting their ISA allowance (excluding Fixed-Term Smart ISA). Like Smart Saver, it provides savers a highly competitive interest rate, allows them to save from £1, and brings all the innovative features of Smart Saver to an ISA, such as creating personalised pots (ranging from Instant Access to Fixed-Term ISA pots of one to five years).

Number of credit card customers



Number of UPL and car finance customers



1. The comparative 2022 number of customers has been restated to align with a new approach used internally to monitor and report customer numbers. The number reported in the 2022 Annual Report was 328,369.

Business review continued

Savings continued

Smart Saver continued

In 2023, we further diversified our deposit base with £315m now held in Smart ISAs, and this is expected to increase significantly in the new tax year.

The popularity of Smart Saver and its boosted pots has provided the foundations for a stickier deposit base, supporting enhanced funding resiliency and diversification. Customers enjoy how the segmentation pots provide for different saving goals and are reluctant to lose them when switching provider.

Customers typically find Smart Saver, whether existing customers or those new to Zopa, through rate tables or other aggregators. Our 178,000 Smart Savers hold average savings of £10,500 and are typically aged 45.

Fixed-term savings

Fixed-term savings remain a foundational part of our funding strategy. In 2023, we managed rates in line with our strategic objective of maintaining balances for fixed-term savings consistent with previous years, as well as maintaining our resave rate at 33% (2022: 40%).

The customer profile of fixed-term savings is significantly older than that of Smart Saver, attracting an average deposit balance of around £35,000. On average, our customers are aged around 60 with significant savings to deploy.

Zopa app

Acting as a central hub for all Zopa products, the Zopa app is aimed at providing control and ease to all our customers.

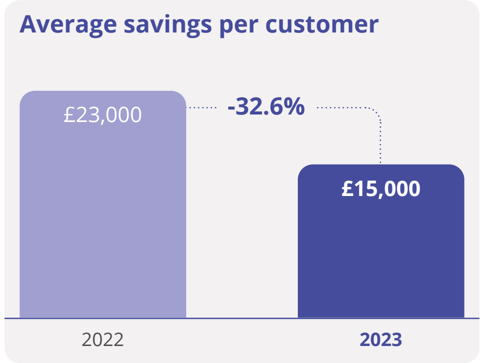
In Borrowing Power, we provide a credit scoring tool to help customers improve their credit by linking actionable behaviours to outcomes, including pre-approved, guaranteed rate offers for loans and credit cards. Last year, 18% of our UPL originations and 5% of our credit cards originations came from the Zopa app. Those are both significant increases on the previous year.

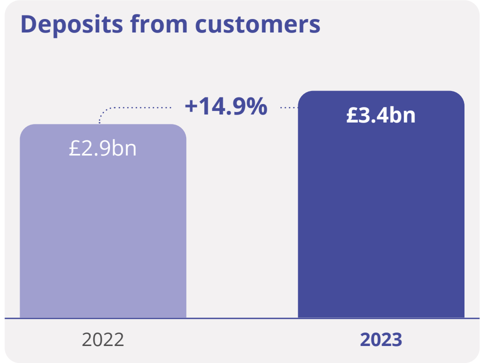
Our debt consolidation calculator also supports customers with their debt management by showing savings that can be made through taking out a debt consolidation loan. Last year, customers saved over £500 on average by using this tool.

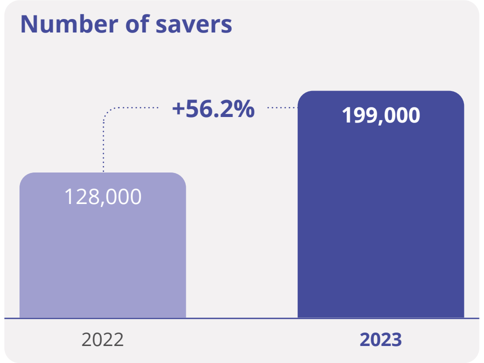
At the start of 2023, we improved the tools and features available to customers to support them through the cost-of-living crisis. This included launching a new tool called Insights, helping customers understand their money and find new ways to save more. We also enhanced our self-service tools and expanded our forbearance offering.

More recently, we expanded the Zopa app experience to serve more needs of our customers. We have launched in beta new features to help our customers fight complexity. These features leverage open banking, enabling customers to manage all their money from external bank accounts, including money movements, in one place.

At year end 2023, around 60.8% of our customers were actively using the app.



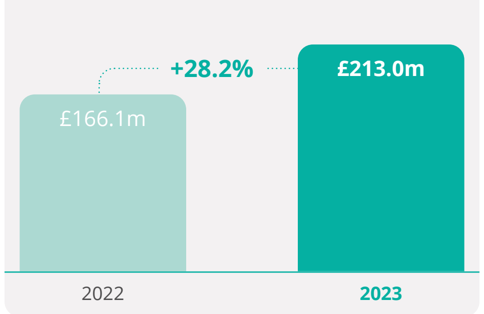




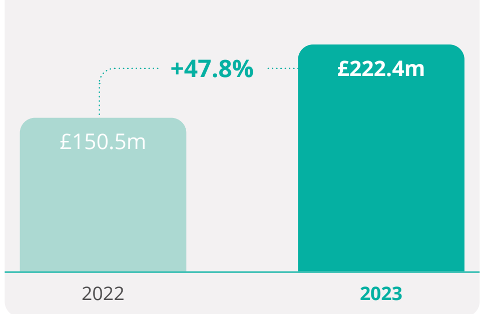
Key performance indicators

Income statement metrics

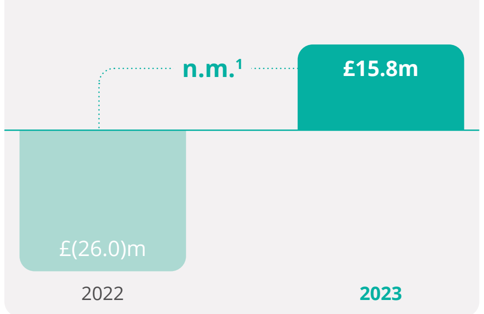
Net interest income



Total operating income



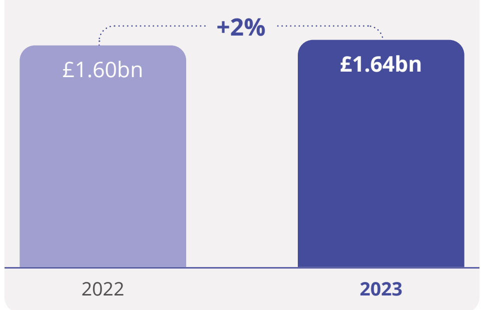
Profit/(loss) before tax income



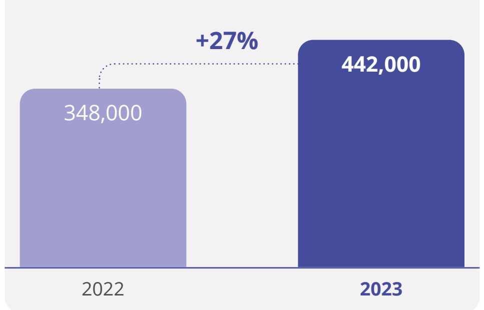
1. n.m. – no meaningful figure.
2. Loan originations exclude any peer-to-peer loans acquired by Zopa Bank following the sale of Zopa Limited by Zopa Group in February 2022.
3. Refer to alternative performance measures on page 181.

General performance metrics

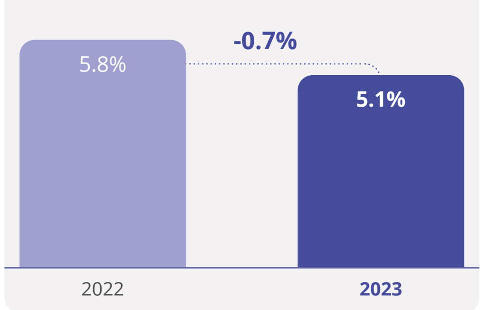
Total gross new lending[2]



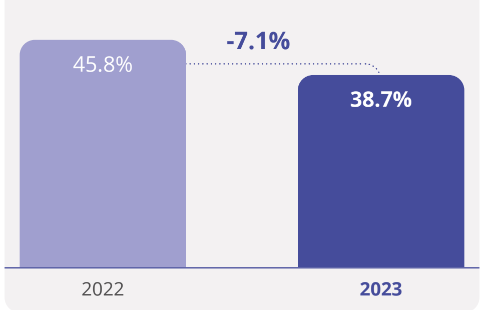
Credit card accounts



Cost of risk[3]



Cost-to-income ratio[3]



Financial review

Steve Hulme
Chief Financial Officer

"In 2023, we made £15.8m profit before tax, representing our first full year of profitability as a bank. We surpassed 1 million customers, with £2.7bn in gross loans on balance sheet and £3.4bn in retail deposits."

This financial review provides a summary of our results and performance. In assessing financial performance, we use a range of key performance indicators and alternative performance measures (APMs) focused on profitability, growth, credit, cost management and overall financial strength.

In 2023, the economic environment presented sustained challenges for our customers and our business. Much like 2022, there was a backdrop of pressure from high inflation and rising interest rates, which together meant the cost-of-living crisis showed no signs of abating. Many customers have seen rising borrowing costs, increased rents and mortgage payments. For our savers, we supported their financial wellbeing by paying highly competitive interest rates. For our borrowers, we ensured our lending is affordable and responsible, and as such, we continued to prioritise credit resilience, which resulted in lower growth in gross new lending.

However, despite the unfavourable backdrop, I'm very pleased with the progress made over the year. We've continued to innovate and support our customers through difficult times, reaching over 1 million customers across all products (+30% year-on-year growth). Each one of those customers contributes to our financial performance and has allowed us to reach key milestones, such as our first full year of profitability.

Like our customers, our investors have also continued to support us. In 2023, we raised £75m in common equity tier 1 (CET1) capital and £75m in tier 2 capital. Given the market conditions, this is a real validation of our strategy and financial trajectory, and it provides the funding required to continue building Britain's best bank in 2024.

Financial review continued

Gross loans

Our gross loans increased to £2.7bn (2022: £2.1bn)

	2023	2022	Change
Gross loans and advances to customers	**£2.7bn**	£2.1bn	+27.3%

In 2023, we saw a 27.3% increase in our gross loans on balance sheet to £2.7bn, reflective of the amount of gross new lending during the year. This included increased credit card balances from continued growth in card customers to 442,000 open accounts (2022: 348,000). Following the Bank's launch of point-of-sale (PoS), we also recognised new PoS loans on our balance sheet over the year.

At year end, unsecured personal loans (UPLs) (71%), car finance (18%), credit cards (10%) and PoS (1%) comprised total gross loans of £2.7bn.

Retail deposits

Strong growth in retail deposits to £3.4bn (2022: £2.9bn)

	2023	2022	Change
Deposits from customer	**£3.4bn**	£2.9bn	+14.9%
Cost of funds	**3.7%**	1.7%	+200bps
Loan-to-deposit ratio	**74%**	66%	+8%

Despite a more competitive market for savings due to the rising interest rate environment, we significantly increased overall savings balances in 2023. We know savings is a key product for our customers in managing their financial wellbeing, so we launched Smart ISA and secured our first savings partnership in 2023. This helped us reach more customers with our competitive savings rates, supported retail deposit growth and helped to mitigate risk from rising rates as they provide a lower cost of funding.

We continued operating with a significant deposit surplus and ended 2023 with a loan-to-deposit ratio of 74% (2022: 66%).

Total operating income

Total operating income grew by 48% to £222.4m

	2023	2022	Change
Interest income	**£349.9m**	£200.0m	+74.9%
Interest expense	**£137.0m**	£33.9m	+303.6%
Net interest income	**£213.0m**	£166.1m	+28.2%
Fee and commission income	**£13.0m**	£8.1m	+60.1%
Fee and commission expense	**£10.7m**	£9.0m	+18.2%
Net fee and commission income/(expense)	**£2.3m**	(£0.9m)	n.m.
Total operating income	**£222.4m**	£150.5m	+47.8%
Net interest margin (NIM)	**5.3%**	7.1%	-180bps

In 2023, our total operating income increased significantly by 48% to £222.4m (2022: £150.5m). Most of our income is generated through NIM on our lending, the majority of which comes from our UPL product. While gross new lending remained stable year-on-year, gross loans on our balance sheet grew 27.3%, providing a stronger base from which to generate income.

Overall interest income rose by 74.9% to £349.9m (2022: £200.0m). We earn interest income from our lending assets and from cash balances held at the Bank of England. On our lending assets, we kept pricing consistent with the broader interest rate environment and reflective of risk while keeping gross new lending stable year-on-year. Our cash balances at the Bank of England also benefited from rising rates (22% of total interest income). However, most of our interest income is from loans and advances to customers (77% of total interest income).

Our overall interest expense rose by 303.6% to £137.0m (2022: £33.9m). A competitive savings market and higher rates led to higher interest expense on our deposit balances. Some of this interest expense has been offset by gains on interest rate swaps. Interest expense also includes the coupon on the tier 2 instrument issued in 2023.

Financial review continued

Total operating income continued

Overall NIM reduced in 2023. This reduction was driven by the mechanics of growth in our liquid assets, which yield a lower interest rate, combined with growth in our interest expense, due to rising rates and deposit balances. Our approach to funding provides resilience against changing interest rate environments. Our underlying NIM in our lending products remains robust as we've broadly passed through increases in our funding costs.

Our fee and commission income increased by 60% to £13.0m (2022: £8.1m). This was driven by the launch of PoS lending on the Bank's balance sheet. When originating a new interest-free PoS loan, the Bank earns a fee. As we scaled our credit cards product, we also earned more in credit card fees, which include interchange, cash withdrawals at ATMs and late-payment fees.

Our fee and commission expense increased to £10.7m (2022: £9.0m), in line with our customer growth as we scale the Bank.

Cost-to-income ratio

Cost-to-income ratio continues its improving trajectory to 38.7%, benefiting from scale and continued cost discipline

	2023	2022	Change
Operating expenses	**£83.3m**	£75.6m	+10.2%
Net interest, fee and commission income	**£215.3m**	£165.2m	+30.3%
Cost-to-income ratio	**38.7%**	45.8%	-710bps

In 2023, our operating expenses rose by 10.2%, while our cost-to-income ratio fell by 7.1%.

We've continued to control our costs, with operating expenses growing significantly less (+10.2% YoY) than our overall customer base (+30% YoY). In 2023, we grew our headcount less quickly, and supported further cost efficiency through continued use of outsourcing as well as a reduction in third-party supplier costs. We also benefited from being balanced and targeted in our approach to pay awards.

Our cost-to-income ratio improved due to this tight cost control, combined with higher income from serving more customers, as our digital model benefits from economies of scale. In 2024, we plan to invest more in artificial intelligence across the Bank to drive enhanced productivity and efficiency.

Expected credit losses (ECLs)

Credit discipline and successful underwriting led to ECLs remaining stable

	2023	2022	Change
ECLs charge	**£122.8m**	£100.6m	+22.1%
ECLs allowance	**£174.4**	£141.1m	+23.6%
Coverage ratio (including purchased or originated credit-impaired loans)[1]	**6.5%**	6.7%	-20bps
Cost of risk	**5.1%**	5.8%	-70bps

Our overall ECLs charge increased in 2023 to £122.8m (2022:£100.6m). Our cost-of-risk metric, which reflects this charge over average loan balances, decreased by 70bps to 5.1% in 2023 (2022: 5.8%).

Credit performance on the lending book was stable over the year but our maturing book and lower growth in 2023 compared to 2022 resulted in the reduced cost-of-risk.

The ECL allowance at the end of 2023 was £174.4m (2022: £141.1m). This increase was mainly driven by the growth in gross loans, combined with the ongoing uncertainty about the future of the UK and global economy, however the overall coverage ratio remained similar with a small reduction to 6.5%.

1. Refer to alternative performance measures.

Financial review continued

Profitability

Our first full year of profitability, reaching £15.8m profit before tax

	2023	2022	Change
Net operating income	**£139.2m**	£74.9m	+85.7%
Profit/(loss) before tax	**£15.8m**	(£26.0m)	n.m.
Profit/(loss) after tax	**£38.9m**	(£26.0m)	n.m.

This year marks our first full year of profitability as a bank, with £15.8m profit before tax (2022: £26.0m loss). We reached over 1 million customers, delivering a larger balance sheet and helping to drive income. We ensured the assets we originated were resilient, supporting stable credit performance. We remained disciplined on cost, leveraging our digital model and economies of scale as we grew. In 2023, our strong performance and future outlook meant we were also able to recognise a deferred tax asset for the first time, taking our profit after tax to £38.9m (2022: £26.0m loss).

Capital

Our capital position remains strong following two successful capital raises in 2023, and we can continue operating without reliance on future capital injections

	2023	2022	Change
Risk-weighted assets (RWAs)	**£2,206.2m**	£1,665.1m	+32%
Overall capital ratio	**18.7%**	17.5%	+120bps
Common Equity Tier 1 (CET1) ratio	**15.8%**	18.0%	-220bps
Leverage ratio	**13.0%**	14.0%	-100bps

Our capital position remained strong throughout the year. In 2023, the Bank received £75m of CET1 from the 2023 capital raise completed by Zopa Group in January. In August, Zopa Group successfully completed its inaugural tier 2 capital raise of £75m, with £75m of equivalent funding being provided into the Bank in 2023, also as a tier 2 instrument. Both capital raises enable us to invest in future growth for our customers.

To fulfil our long-term vision of becoming Britain's best bank and a much larger business, we'll need to raise more regulatory capital for growth. However, the Bank is now capital accretive and can operate on a capital self-sufficient basis. Management has multiple levers to manage capital runway, including reducing gross new lending and executing loan sales. This means the Bank can operate without further capital injections if required.

Our overall capital ratio stood at 18.7% (2022: 17.5%), which includes both CET1 and tier 2 capital, despite growth in RWAs. 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 (ICAAP) is used to assess the adequacy and efficiency of our capital resources required to support our business model and the key stress assumptions that drive that requirement.

Liquidity

Our liquidity position is conservatively managed well ahead of regulatory minimums

	2023	2022	Change
High-quality liquid assets (HQLAs) to deposit ratio	**42%**	48%	(6)%
Net stable funding ratio (NSFR)	**190%**	203%	(13)%
Liquidity coverage ratio (LCR)	**539%**	829%	(290)%

Financial review continued

Liquidity continued

We maintained a strong liquidity position throughout the year against both regulatory metrics and our internal risk appetite. That included £1.4bn (2022: £1.4bn) in HQLA 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 NSFR.

In 2023, liquidity metrics continued to be above the internal risk appetite, which was well above regulatory minimums, following continued growth in retail deposit balances. The reduction in LCR from 2022 reflects the growth in our Smart Saver product, which has greater stressed outflow rates associated with its balances. At year end, around 40% of Smart Saver balances were in notice pots, which provides stable funding and limited risk of immediate outflows. The internal liquidity adequacy assessment process (ILAAP) provides an assessment of the adequacy of our liquidity resources and of the key assumptions that drive that requirement.

Since launching the Bank in 2020, we've taken a consistently conservative approach to our management of financial risks. In 2023, we started to optimise our liquidity management by purchasing other HQLAs, initially acquiring a small portfolio of covered bonds. However, most of our liquid assets were held in the Bank of England reserve account with overnight availability (£1.3bn, 94%).

In addition to the liquidity 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, further enhancing our liquidity position.

Building Britain's best bank

2023 has seen us make outstanding progress towards our vision of becoming Britain's best bank. In just three years since our launch, we've surpassed 1 million customers, become profitable and built a £4bn strong balance sheet in total assets.

Our performance in 2023 demonstrates that our model is robust and resilient to ongoing economic challenges, and that in difficult times, more customers than ever are choosing us to manage their financial wellbeing.

But we know there's more to do. In 2024, the uncertain economic environment means we'll need to be disciplined on credit as we grow, continuing to lend only in a careful and affordable manner. As we scale, our business will face increased costs requiring enhanced focus on cost efficiency. We'll achieve some of that through the deployment of new technologies such as artificial intelligence to drive further automation and productivity gains.

And most importantly, we'll keep building on our momentum with new innovative products and features to cement our position in the financial lives of our customers. Only by doing that successfully can we reach new financial milestones and deliver Britain's best bank.

On behalf of the Board of Directors,

Steve Hulme
Chief Financial Officer

10 April 2024

Non-financial and sustainability information statement

Zopa's people are our unique superpower, propelling the business forward in accordance with our values to deliver great outcomes for customers. Zopa has a compelling people narrative which sustains its position as a leading employer in the fintech arena – and this underpins our ability to attract top talent in key capability areas as we continue to innovate into new product areas and customer segments.

Zopians are part of an inclusive organisation, empowered to do their best work, allowing us to offer consumers an award-winning customer experience. Our continued investment in our employee value proposition, embedding new benefits and workplace flexibility, positions us as a leading employer in the sector.

Our people
Climate disclosures

We're proud of our thriving culture, which continues to drive Zopa forward.

Supporting our people

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

"Transitioning from teaching to tech through Zopa's Code First Girls sponsorship was a life-changing shift. This journey brought immense personal growth, deepening my understanding of technology and business, boosting self-esteem and reigniting my passion for problem solving. This year at Zopa, I've engaged actively in panels, product feature launches and tribe roundups, with a notable victory in the Google X Zopa Hackathon. Embracing brave and courageous choices in Zopa's supportive environment, I've grown significantly. My deep gratitude for Zopa is undeniable; it has shaped my drive to become a proficient software engineer and continuously inspires me towards personal excellence."

Rebecca Ajayi
Junior Software Engineer

Non-financial and sustainability information statement continued

Our people

Supporting our team

"I have a career in technology thanks to the support and investment from Zopa, and, in particular, learning and development. Zopa funded my coding bootcamp while I was in my role in Operations and gave me the opportunity to work four-day weeks over the course of those six months, to have the time to dedicate to my learning. Having Zopa's support and confidence in me making the switch from Operations to Technology really propelled me to the position I am in today and gives me further motivation to prove to the Company they made a good investment in me. I hope to offer the same support to others wanting to make a similar career switch at Zopa."

Charlotte Walker
(Junior Software Engineer)

PERSONNEL TODAY AWARDS Employee Experience Award WINNER

Personnel Today Awards

UK's MOST LOVED WORKPLACES 2023 Newsweek #2

glassdoor

4.6
out of 5 stars

Business Culture Awards 2023 Winner

Business Culture Awards

2025 FINTECH PLEDGE

MENOPAUSE WORKPLACE PLEDGE

2022 Winner
Hired's Top Employers Winning Tech Talent
Hired_

99%
CEO approval rating

Non-financial and sustainability information statement continued

Our people continued

To ensure our customers are getting a best-in-class experience and to attract and retain high calibre talent, we need to maintain our unique and compelling culture. We achieve this by having a people-centric approach, investing in personal growth and career acceleration. Zopians treat each other with mutual respect, and we don't tolerate discrimination under any circumstances. We offer an open, flat and transparent culture where Zopians are empowered to each support our community with advice and expertise whenever needed. We know everyone here is an expert in their field, and we respect each other's knowledge and insight as we collaborate. As customer champions, all that we do is grounded in integrity, honesty, trust and compassion. That's how we build Britain's best bank. Our progress in this area has been even further cemented by our ability to draw six 'boomerang' hires to return to Zopa in 2023.

We get valuable feedback from our workforce every day, but twice a year we collect insights through our employee engagement survey, known as the Zopometer. Participation over the last 12 months has been phenomenal; 93% of the workforce took time to fill it in and leave comments in October 2023.

The survey allows us to track engagement levels across multiple factors, enabling us to build a people investment plan and improving employee nominated focus areas. We ended the year with diversity, equity and inclusion (DE&I) (81%), culture (80%) and leadership (77%) being our highest scoring positive factors. We've delivered these results while continuing to help our employees navigate some of the most unprecedented cost-of-living challenges seen for decades.

Our weekly company meeting brings our 700+ community together to feature different guest speakers from across Zopa who spotlight projects, strategic progress and recognise Zopian achievements. As well as fostering a sense of belonging across the business, we dedicate some of our company meetings to non-business-related topics, ensuring our sense of community goes further than a shared experience of Bank strategy and goals. These meetings are hosted by guest speakers from outside Zopa who talk about a broad range of social topics such as trans identity and neurodiversity.

Supporting our people

We offer a robust suite of employee benefits tailored to support all aspects of our Zopians' wellbeing, enabling our teams to work in ways that allow them to meet both personal and professional goals.

Anna Chudy
Regulatory Reporting Accountant

"Starting at a new company at any age can be daunting, but at the age of 50 when your body is conspiring against you is something else altogether.

Knowing that Zopa managers have completed menopause awareness training is invaluable because you know that you can communicate your needs and manage expectations when you're having a bad day.

Their commitment to making reasonable adjustments to working conditions by allowing flexible working hours, breaks or leave to manage symptoms and appointments; running a menopause support group and offering counselling to support your mental health and confidence is great.

By providing menopause training, it's not only raised awareness, but also empathy amongst co-workers, which in turn has created a more inclusive and supportive culture at work. The workplace culture at Zopa is the most supportive and inclusive that I've ever been part of."

Non-financial and sustainability information statement continued

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 from the Zopa community

Walk the talk

- ✔ We act with integrity and compassion
- ✔ We trust each other's intentions
- ✔ We're brave enough to challenge each other
- ✔ We're 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 and unconventional choices where appropriate

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

Non-financial and sustainability information statement continued

Our people continued

Our values continued

We built-out our people proposition even further in 2023 to offer Zopians even more compelling benefits to their employment with us than ever before. We were early adopters of an employee electric vehicle scheme, allowing Zopians to save up to 40% on the cost of a green vehicle. Further provisions announced included Menopause Care, a free mortgage advice service, a subsidised will writing service and group income protection insurance. After a successful trial period to allow employees to flex their religious bank holidays, we've rolled this out as a permanent benefit, incorporating all bank holidays. Zopians are now able to take more annual leave if they need to, allowing our people to have improved flexibility to achieve personal goals.

We're proud to be the UK's second most loved workplace and to have a Glassdoor rating of 4.6.

Our people are bold and brave, never standing still, and constantly exploring new ways to improve our products and processes. Zopians are driven to aim high in all that we do and to reach our maximum potential. We thrive through tailored personal development opportunities and accelerate career growth from within Zopa. We're proud that 16% of our community (109 Zopians) have achieved promotion this year through accelerated development, with a further 5.7% (39 Zopians) getting new roles through internal mobility. 33 Zopians benefited from a mentoring partnership in 2023. Our Zopa Leadership Academy welcomed its second intake, aimed at supporting individual career development in the transition from individual contributor to leader, strengthening the quality of our people experience. 25 Zopians took part in this programme and graduated from the academy, with presentations made directly to our leadership team on the final day.

Supporting our people

"I recently started my second stint with the Company in July. On my first day back, I told Zopa that my partner was pregnant. As a re-joiner, I didn't qualify for the Zopa's extended paternity leave. However, the Company were fully supportive, and upon my passing probation, they offered me four weeks fully paid leave regardless.

I was able to combine that with my annual leave to take an extended period off over the festive season. As first-time parents, there are plenty of emotions! But being at home to support my partner and nurture my daughter during such an intimate and emotional time has meant the world to me. I'm incredibly grateful to Zopa for allowing me to spend so much time with my new family. It really shows how much the Company cares about their employees, and throughout this process I've felt valued as an employee, and equally as a parent. I don't know of many other employers who are as family friendly as Zopa."

Fraser Bovey
People Partner

Non-financial and sustainability information statement continued

Our people continued

44% of senior managers at Zopa are women

As part of our commitment to diversity and female representation, in 2018 we signed the Women in Finance Charter with a pledge to ensure that at least 33% of our senior management is made up of women. We're incredibly proud to have surpassed this goal in 2022, having increased the number of women in senior management at Zopa Bank to 40%, an 11% increase from 2021 (defined as leadership team and their direct reports). We pledged to do even more in 2023, setting out to achieve a target of 44% in senior female representation by the end of the year. We're delighted to report that we've again hit our target, going above and beyond the initial mandate of the Charter.

Achieving 44% of women in senior management reflects the efforts made through several initiatives that place diversity and female representation at the forefront of our strategy. Those initiatives are:

- **Partnering with Code First Girls:** We've partnered with Code First Girls since 2021, offering technical training courses in data, software, full-stack and product management to 135 participants; this has already led to a dozen job offers with Zopa. We'll continue to work as partners in 2024 to ensure that the success of this initiative continues.
- **Building a diverse talent pipeline:** We continue to decode all 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.
- **Ensuring a 50:50 hiring pipeline:** Direct sourcing is a long-term undertaking, and we feel strongly that a systemic approach is needed to create more diverse leadership in our technology function. We've now achieved a 50:50 split in our graduate hiring pipeline for the first time ever. In 2024, we'll renew our focus on the development of graduate and apprenticeship levels, nurturing the next generation of female leaders and managers at Zopa.
- **Raising awareness:** DE&I was our highest scoring factor, at 81%, in Zopa's most recent employee engagement survey. This is the result of internal and external initiatives enabling excellence and championing women in tech, such as the work we're doing with Innovate Finance to promote and celebrate the annual Powerlist of Women in FinTech.
- **Diversity and inclusion training:** We've partnered with Mission Diverse to run brand new unconscious bias training sessions for all managers, our People Team and Zopians across the business. This training has been incredibly well received and will continue in 2024.

80%
High culture score

93%
People would recommend Zopa

46%
Female employees

Non-financial and sustainability information statement continued

Our people continued

Gender pay gap

With 44% female representation in its leadership team, Zopa Bank is on its way to achieving true gender parity, making it a leading player among UK digital banks when it comes to female representation at the highest level.

While our pay is fair across like-for-like roles and we've more women in our business than ever before, our current pay gap remains wider than we'd like.

As at April 2023, our mean gender pay gap was 26.2%, and our median gender pay gap was 38.2%. We review our gender pay gap at multiple points throughout the year, and whilst we know we've more work to do in this area, we were pleased to note a 4 percentage point reduction, to 34.2%, in our median gender pay gap at the end of October.

This is mainly a product of the distribution of women across our firm. We have more men in technology and product roles; these roles often come with a higher market value. And we have more women in customer service roles, the Zopa function which offers our lowest salaries overall. Further details can be found on Zopa's website and in Zopa Bank's Gender Pay Gap report available on the UK Gov Gender Pay Gap Service.

One of our main committed focus areas of our strategy has been to increase the representation of women in our upper quartile, and we're delighted to have continued to increase representation by 3% year-on-year within this quartile.

Notably, between May 2022 and April 2023, 51.3% of all joiners were women, with a large proportion joining our operations team.

Supporting our people

"Having not had a car for almost a decade, the arrival of my daughter spurred us to get one. We were keen to get an electric car both for practical reasons and to minimise our impact on the environment.

However, we were put off by the high cost of a new car and wary of getting a used one outside of a warranty period. When Zopa introduced the Salary Sacrifice scheme we were delighted. It allowed us to afford an electric car and included the insurance/warranty, etc., meaning owning and running it has been a seamless process. We even got a charger installed! The process was made easier with all the training and material that the People Team put together. We now have our shiny electric MG, which we use daily to ferry from nursery, the shops and occasional trips across the UK."

Daniel Butler
Director,
Car Finance

Non-financial and sustainability information statement continued

Climate-related financial disclosures

At Zopa, we're committed to running our business in a way that's sustainable for all our stakeholders. We believe that being transparent in how we approach climate-related matters is an integral part of that commitment. In this section of our strategic report, we present our climate-related financial disclosures, focusing on governance, strategy, risk management, metrics and targets.

The UK government has recognised the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) as one of the most effective frameworks for companies to use 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 disclosures in their annual reports.

The regulations are effective for accounting periods which start on or after 6 April 2022. Therefore, this is the first time that Zopa Bank has included TCFD-aligned climate-related financial disclosures in its Annual Report.

During the year, we've made changes across governance, strategy and risk management to embed climate-related considerations into our enterprise systems and processes. While other aspects of environmental, social and governance (ESG) are well defined and embedded into the organisation, as demonstrated by what we've been able to deliver for our customers, employees and communities, more work is needed for the environmental considerations to reach the same level of prominence in how we run our business. In 2023, we invested in the foundations needed to start on this journey. In 2024, we are taking steps to determine what our climate-action roadmap should look like, when to start transition planning and when to publish our strategic ambition plan setting out how Zopa Bank will achieve net zero. We recognise and share our people's concerns about climate change. We're confident that with their dedication and passion we'll be able to make Zopa play its part in helping the UK achieve its net-zero target by 2050.

In 2023, we set the foundations needed to plan and manage our strategic climate-action initiatives.

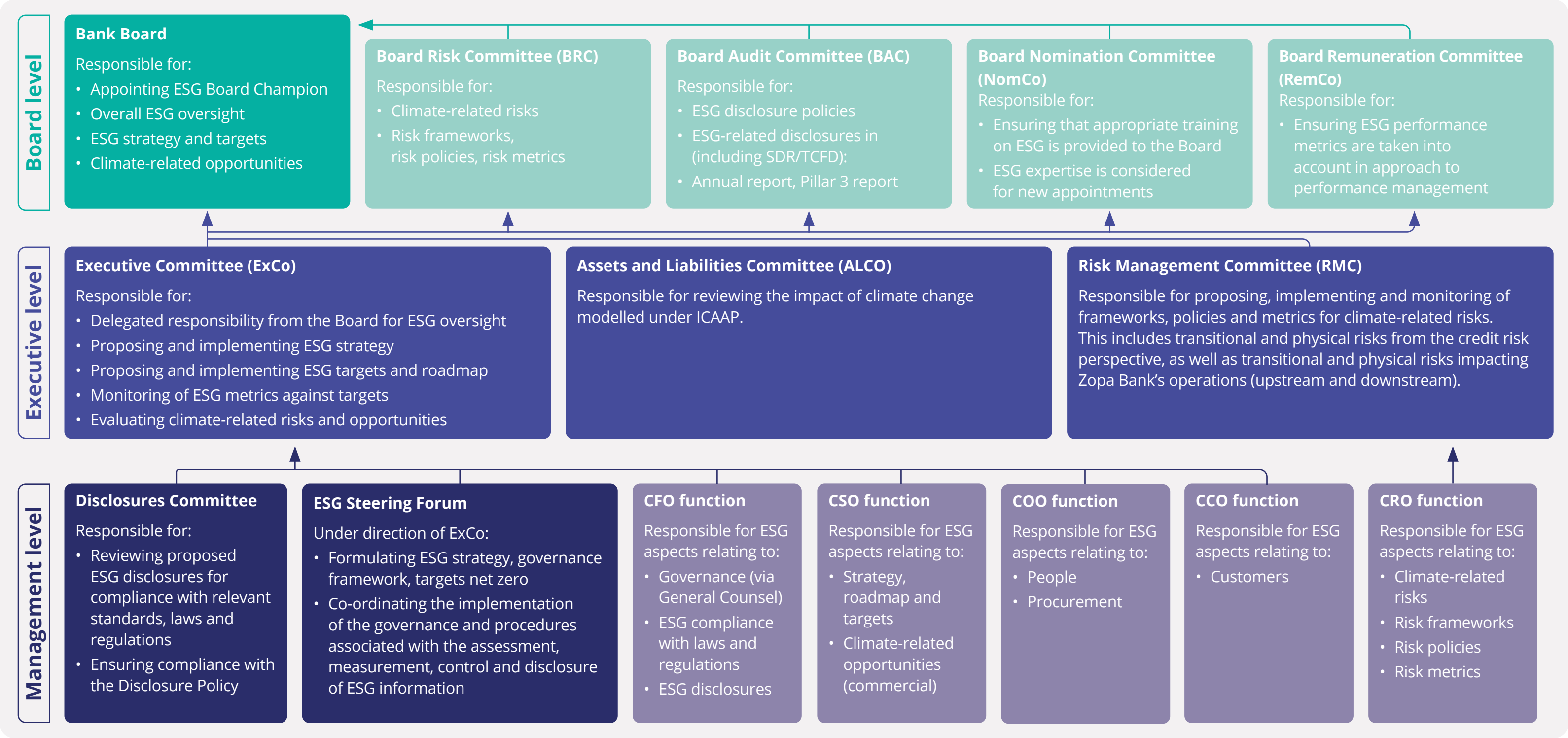
Non-financial and sustainability information statement continued

Climate-related financial disclosures continued

Governance

The role of the Board in oversight of climate-related risks and opportunities

The Board of Directors and the Board Risk Committee (BRC) first reaffirmed their responsibilities for the identification, measurement, management and control of climate-related risks in 2021, leading to changes in the risk management framework (RMF) and clarifications of how the Board delegates the execution of these responsibilities to Board and management committees. Since then, further changes have been made to the governance arrangements to embed climate-related considerations more effectively into Zopa's enterprise systems and processes. Key improvements during the year included the appointment of Gaenor Bagley, an independent non-executive director, as an ESG Board Champion, and changes to the terms of reference of various Board and management committees.



Non-financial and sustainability information statement continued

Climate-related financial disclosures continued

Governance continued

The role of the Board in oversight of climate-related risks and opportunities continued

The Board is ultimately responsible for all ESG matters, including climate-related risks and opportunities. This covers:

- considering and approving ESG strategy, roadmap and transition plans;
- monitoring the delivery of the ESG strategy and performance against targets;
- maintaining oversight and request periodic reports from management on the ESG performance of the business and evaluate any associated risks in light of its strategic ESG aims, objectives and business plans; and
- considering and approving recommendations on significant changes that extend or cease Zopa's ESG initiatives.

The Board receives ESG-related updates from management regularly through the year. Climate-related risks and opportunities are discussed at least once a year as part of the strategy and risk management matters.

During the year, the Board approved changes to ESG governance and received updates on the formalisation of Zopa's ESG strategy and climate roadmap, including consideration of climate-related risks and opportunities.

Other Board-level committees with climate-related responsibilities include:

- the Board Risk Committee is responsible for the oversight of climate-related risk frameworks, policies and metrics. During the year, the BRC has considered the Bank's exposure to climate-related risks, including physical and transitional risks. It has also approved the Bank's compliance with requirements of the Prudential Regulation Authority (PRA) Supervisory Statement 3/19;
- the Board Audit Committee is responsible for the oversight of ESG disclosures, including climate-related disclosures, and the related frameworks and policies. During the year, the BAC was updated on the proposed level of climate-related disclosures and has approved this report;
- the Board Nomination Committee is responsible for ensuring that appropriate training on ESG is provided to the Board and that ESG expertise, including on climate-related matters, is considered as part of new appointments. At 2023 year end, the Board considered the current level of expertise in this area to be commensurate with Zopa's current scale and complexity as well as the nature of climate-related risks the Bank is exposed to; and
- the Board Remuneration Committee is responsible for ensuring that ESG metrics, including climate-related metrics, are taken into account in the approach to performance management. At 2023 year end, there were no climate-related metrics linked to executive remuneration or the Bank's performance scorecard.

Non-financial and sustainability information statement continued

Climate-related financial disclosures continued

Governance continued

The role of management in assessing and managing climate-related risks and opportunities

Following the changes introduced in 2023, the responsibility for ESG matters (including climate-related matters) is now embedded across the organisation.

ExCo is responsible for:

- considering and proposing an ESG strategy, roadmap and targets to the Board and overseeing their implementation;
- considering the impact of climate-related risks and opportunities;
- monitoring the delivery of the ESG strategy and performance against targets;
- managing the Bank's operating performance in light of its strategic ESG aims, objectives, business plans and budgets;
- reviewing reports on the ESG performance of the business and evaluating any associated risks; and
- considering and proposing to the Board recommendations for significant changes that extend or cease any ESG strategic activities.

The RMC's responsibilities have been clarified to reflect that its remit covers any financial risks from climate change, whether physical or transitional, including those arising from the Bank's lending activities and other operations.

The Disclosures Committee's responsibilities have also been expanded to capture the review and challenge of ESG-related disclosures for compliance with relevant standards, laws and regulations.

In recognition of the Board's commitments to ESG, a new ESG Steering Forum has been established to drive formulation of the ESG strategy, monitor ESG initiatives and oversee implementation of related governance and procedures. The ESG Steering Forum includes senior representatives from across various functions of the business, and it reports directly to ExCo.

As part of the governance changes introduced during the year, we've clarified the responsibilities of each business function, and the related senior management functions (SMFs).

Non-financial and sustainability information statement continued

Climate-related financial disclosures continued

Strategy

Business model and strategy

We recognise that climate change is already having a very real impact on our key stakeholders such as customers and suppliers. Changes in the environment, regulations and consumer behaviours present both risks and opportunities for the Bank. We assess these in the context of our business model and strategy over the short, medium and long-term planning horizons. This has led to the identification of several climate-related risks and opportunities, as set out below.

Risks and opportunities	Our strategic views
Physical risk The indirect impact of climate-related disasters and weather events that affect our customers' ability to service their credit. **Timeframe:** Medium and long term	According to the UK Climate Projections reports published by the Met Office, the UK is likely to experience more unpredictable weather conditions in the coming years, including heatwaves, heavy rainfalls, storms and droughts. These will have an adverse impact on financial health of consumers and businesses. Zopa's exposure to financial risks arising from this physical climate risk are relatively low as a result of our current strategy, through which: • we don't secure lending against property; • we don't offer loans to businesses; • our instalment loans have a maximum term of seven years, but the average term and weighted average life of our loans is much shorter – this reduces our exposure to longer-term shifts in climate; and • our credit card offering is open-ended but has relatively low credit limits.
Physical risk The direct impact of climate-related disasters and weather events on our value chain consisting of operations, employees, suppliers and outsourcing partners. **Timeframe:** Medium and long term	The operational risks relating to climate change have been considered when entering into new material outsourcing arrangements. For example, severe weather event risk was considered when deciding the location for outsourcing of customer servicing initiated in 2021. During the pandemic and lockdown in 2020, all members of staff worked fully remotely and since then we've been operating a hybrid work environment. Therefore, we're confident that in the event of severe weather conditions preventing our staff from getting into the office, our business operations would be able to continue as normal. Our business continuity plan (BCP) and the BCP testing plan consider severe weather event scenarios. We have a range of operational metrics which are designed to monitor and limit operational risk exposure.

Non-financial and sustainability information statement continued

Climate-related financial disclosures continued

Strategy continued

Business model and strategy continued

Risks and opportunities	Our strategic views
Transitional risk The direct impact of laws and regulations impacting the values of petrol and diesel vehicles, affecting the value of our collateral on car finance loans. **Timeframe:** Short, medium and long term	In 2022, we introduced personal contract purchase (PCP) loans, which allow the customers to hand the vehicle over to Zopa at the end of the contract. This generates a higher financial risk exposure for Zopa as the value of the vehicle might be impacted by factors related to climate change. The PCP portfolio is £59.8m in size, representing 14% of our total car finance portfolio, and 2% of total lending. Thus, we continue to consider Zopa's exposure to this financial risk to be relatively low. We plan to introduce additional metrics that will enhance our monitoring of Zopa's exposure to PCP-related asset risk.

Risks and opportunities	Our strategic views
Transitional risk The direct impact of laws and regulations impacting the cost of living, such as through sudden increases in the price of fuel, energy or other critical commodities, resulting in a sudden increase in the cost of living. This in turn could lead to an increase in personal credit defaults if consumers have insufficient disposable income remaining to pay debts. **Timeframe:** Short, medium and long term	Our risk appetite statement (RAS), RMF and credit and responsible lending policy are well-suited to enabling appropriate monitoring and mitigation of this risk. Specifically: • Zopa's RAS sets an appetite for net losses and delinquency rate which would include losses triggered by severe weather. In addition, the credit risk appetite metrics regarding loan-to-value (LTV) and debt-to-income (DTI) further assist the Bank in assessing and limiting its exposure to assets which may be more vulnerable in a climate risk scenario; • Zopa's credit and responsible lending policy requires resilience under a severe but plausible stress scenario, which is sufficiently severe in its current form to incorporate potential climate-related impacts over the next five years; • ongoing monitoring includes model residual error monitoring designed to pick up on trends and, particularly, to identify sub-segments where risk is higher, such as specific geographic regions which are more exposed to severe weather risks; • ongoing car finance monitoring includes monitoring of our mix of vehicle types, split by fuel type, and of vehicle depreciation rates; and • macroeconomic monitoring includes inflation tracking, allowing the Bank to detect shifts which may impact borrowers' disposable income.

Non-financial and sustainability information statement continued

Climate-related financial disclosures continued

Strategy continued

Business model and strategy continued

Risks and opportunities	Our strategic views
Opportunities Product and funding opportunities within the unsecured and secured retail consumer market. **Timeframe:** Medium and long term	Strategic opportunities in the green lending products and sustainability-linked funding options are considered as part of the annual strategy review. The Board challenges management to continually explore the viability of these products and funding options. Whilst there are currently no plans in the short term to actively explore these climate-related opportunities, any commercial opportunities will be considered on a case-by-case basis. The type of opportunities that Zopa could pursue in the future given its business model are: • tailored hire purchase (HP) and personal contract purchase (PCP) products for electric vehicles; • green lending and sustainability-linked lending across personal loans, credit cards and point-of-sale; and • sustainability-linked capital funding, such as green bonds, which could be used to downstream green lending to Zopa's customers.

Non-financial and sustainability information statement continued

Climate-related financial disclosures continued

Strategy continued

Business model and strategy continued

The strategic risk posed by climate change has been considered as part of Zopa's annual strategic planning exercise and continues to be reviewed at least annually. The Bank's existing strategy assumes that we'll not enter into any business lending, lending secured against property or long-term loans that would expose the Bank to physical or transitional risks caused by climate risk.

Climate risk scenario analysis

Climate-related macroeconomic stress scenarios are considered as part of our annual strategic planning. We use two climate change scenarios to reflect the physical risk of a severe weather event and the transitional risk to our car finance assets.

'Physical risks' impacting all lending

In 2022, we simulated the impact of a large UK region experiencing extensive flooding, and we assessed the direct costs to customers and indirect impact on their Zopa loan performance this could entail. In 2023, we simulated this impact on two UK regions. We've continued to assume that this would impact default rates for all customers living in these regions, equivalent to that observed as a result of the first COVID-19 pandemic lockdown.

'Transitional risks' impacting car finance portfolios

Our car finance loans are based on the expectation that we'll be able to recover a significant part of the outstanding balance of a defaulted account through the sale of the car.

A sudden drop in car valuations would mean that we'd incur higher net credit losses than expected (recoveries against defaulted loans would be lower). A drop in car prices could also lead to more people voluntarily terminating their loan contracts, as is their contractual right as long as they've paid at least 50% of the total purchase amount (including any deposit), or handing the car over at the end of the loan term in the case of PCPs.

The two scenarios which have been modelled are:

- a sudden drop in prices of diesel cars and cars that are more than 10 years old due to stricter regulations or higher charges applied by local councils in the UK for environmental reasons (e.g. the ultra-low emission zone in central London); or
- a sudden drop in prices of electric/hybrid cars caused by the current battery technology becoming obsolete.

Our analysis concluded that the capital losses resulting from these scenarios would be minimal. The car finance portfolio stress scenario is used as part of ongoing credit decision-making within this business line.

Furthermore, we considered including a climate-related operational risk scenario in our operational risk assessment. However, we concluded that, given Zopa's online operating model and limited dependence on geographies that are vulnerable to climate-related events, such a scenario wasn't severe or plausible enough to warrant inclusion.

Given Zopa's current business strategy and stage of maturity, we don't consider it proportionate to develop stress scenarios which stretch beyond a five-year horizon at this stage. This approach will be reviewed annually.

Non-financial and sustainability information statement continued

Climate-related financial disclosures continued

Risk management

We review our approach to managing climate-related risks annually as part of the risk appetite and the ICAAP review process. It would also be reviewed at any time if the strategy were to change to include lending secured against property, commercial lending or any form of fixed-rate lending with a term of greater than 10 years.

Zopa Bank's Board and the BRC consider financial risks from climate change as part of their existing responsibilities for maintaining risk management and internal control systems, and for the identification, measurement, management and control of risks involving Zopa. Zopa's RMF sets out how the Board delegates the execution of these responsibilities to various individuals and Board and management committees. The terms of reference for the executive RMC were updated to make the responsibility for the management of climate-related risks more explicit.

Zopa's RAS has been updated to reflect that:

- credit losses must be controlled so that net losses don't exceed the capital conservation buffer, even under a severe but plausible stress scenario, and that the stress scenario must consider the potential impact of changing macroeconomic conditions that might arise from climate change; and
- a new credit risk appetite metric was added, limiting exposure to electric and hybrid vehicles on secured car finance. This complements existing risk appetite metrics on assets with high LTV rates and lending where the consumer has a high DTI ratio. These metrics help to measure and limit Zopa's exposure to assets which may be more vulnerable to physical or transitional risks from climate change.

Individual risk oversight owner responsibility for identifying and managing climate-related risks was allocated to the Chief Risk Officer (CRO), who will hold the responsibility alongside their existing SMF 4 responsibilities. The management responsibilities map and individual statement of responsibility has been updated accordingly.

The Bank's material risk assessment has been updated and now includes updates specifically referencing how Zopa captures climate-related risks within its risk types.

The plan for Zopa's approach to climate-related risks, and the updated documents described above, have all been reviewed and approved by the Board. The Board has also received training on regulatory expectations regarding climate-related risks from external expert advisers in 2023.

To manage climate-related risks in our value chain, we've enhanced our procurement and third-party management policies, which are now designed to capture ESG-related data. Our BCP and the related testing plan consider the impact of severe weather event scenarios on our value chain. We have a range of operational metrics designed to monitor and limit operational risk exposure. We currently consider this risk to be minimal.

Metrics and targets

Metrics and targets are used to inform our strategic planning, allocate resources, track progress and to report to our stakeholders on the climate-related risks and opportunities. These metrics can also be used to set goals for reducing climate-related risks and maximising opportunities. We also use metrics to measure and report on our greenhouse gas (GHG) emissions footprint.

In previous years, we used a limited number of climate-related metrics. We're currently working to identify and operationalise additional metrics that will help us to better monitor climate-related risks and opportunities relevant to Zopa.

Non-financial and sustainability information statement continued

Climate-related financial disclosures continued

Operational emissions

We report Zopa's UK energy use and associated GHG emissions as part of the Streamlined Energy and Carbon Reporting, in line with the requirements introduced by the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, relevant to large unquoted companies like Zopa Bank and large limited liability partnerships. That covers gas, electricity and transport fuel, as well as an intensity ratio and information relating to energy efficiency actions.

Our emissions are sorted into categories called 'scopes', which are set by the Greenhouse Gas Protocol, the international body that defines carbon accounting standards. In previous years we only reported our Scope 1 and Scope 2 emissions, but we worked during the year with a specialist external consultancy to measure and understand Zopa's Scope 3 emissions, which are included in this report for the first time. Each scope is defined as follows:

Scope 1: Direct release of GHG from sources we own or control. This includes fuel combustion on site, such as in gas boilers, fleet vehicles and air-conditioning leaks.

Scope 2: Indirect emissions from electricity purchased and used by us. The generation and consumption of heat or steam are included. Emissions are created during the production of the energy and eventually used by Zopa.

Scope 3: Upstream emissions of products and services Zopa purchases and uses in its own operations.

Our emission footprint under each scope noted above is calculated using emission factors from verified sources like the US Environmental Protection Agency or the Carbon Disclosure Project, and our own internal business data, such as energy usage, employee mileage, employee surveys and financial data (e.g. supplier spend). This gives us our emissions in tonnes of carbon dioxide equivalent (tCO_2e).

As a fully digital bank, our Scope 1 and Scope 2 emissions are already relatively low, which is why the Scope 3 emissions represent 98.1% of Zopa's total emissions footprint. This is the first time that we have measured the impact of GHG emissions arising from our operations and not just staff travel.

Non-financial and sustainability information statement continued

Climate-related financial disclosures continued

Greenhouse gas emissions

GHG emissions	2023	2022
Scope 1	**15.8 tCO_2e**	—
Scope 2	**60.4 tCO_2e**	56.0 tCO_2e
Scope 3	**3,918.8 tCO_2e**	1.8 tCO_2e
Total	**3,995.0 tCO_2e**	57.8 tCO_2e
Total emissions per full-time employee (intensity ratio)	**5.7 tCO_2e**	98.2 kgs of CO_2e

Key year-on-year changes include:

- Change of an external provider to calculate GHG emissions for 2023. This includes enhancements to GHG calculation methodologies and more comprehensive data collection. The change in GHG emissions in 2022 and 2023 are therefore not directly comparable.
- Scope 1 in 2023 reflects emissions generated by air-conditioning
- Scope 2 increase is due to higher energy consumption and a higher share of energy use in the building due to headcount growth and more employees choosing to work from the office.
- Scope 3 increase is driven by inclusion of all emissions from Zopa's own operations in 2023. The 2022 emissions only included business travel.
- The intensity ratio in 2023 is shown in tonnes of CO_2e (2022: in kilograms of CO_2e) per employee.

Scope 3 emissions

We measure our Scope 3 emissions by business categories. The largest category contributing to our Scope 3 emissions were Goods & Services (74.1%), Staff travel and home-working (9.7%), Cloud hosting (9.2%) and Business travel (7.0%). This reflects the nature of our business as a fully digital bank.

As part of setting our net-zero targets and commitments, we'll aim to set specific targets for reducing our emissions in each of these business categories in a manner that doesn't adversely affect the Bank's operations.

Energy efficiency actions

In 2023, the principal efficiency actions taken by Zopa were:

- engaging with suppliers to understand what data they collect and how they measure their GHG emissions;
- moving to a REGO-backed (Renewable Energy Guarantee of Origin) 100% renewable electricity supply for the office space we occupy, covering the next three years;
- embedding an electric vehicle leasing scheme for Zopians through salary sacrifice.
- promoting the cycle to work scheme where we have seen an increase in the number of employees converting to using a bicycle as their commuting method.

Financed emissions

In addition to our operational emissions, Zopa's carbon footprint also includes downstream financed emissions. These arise from the products and services that we provide to our customers. These types of emissions are measured using GHG accounting standards. The Partnership for Carbon Accounting Financials is a financial industry-led initiative created in 2015 that helps financial institutions to assess and disclose the GHG emissions from loans and investments. Measuring financed emissions is important to understanding both downstream and upstream climate-related transitional risks and opportunities and to setting the baseline emissions for target setting.

Zopa recognises that measuring, controlling and reporting financed emissions is going to be critical when determining our transitional planning and targets for achieving net zero. During the year, we've worked with a specialist consultancy firm and taken the first steps towards understanding our financed emissions. We recognise that more work is needed to measure the impact of our products and services accurately. This important work will continue into 2024 and beyond.

Stakeholder engagement

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

The Bank strives to understand the views and needs of its broad range of stakeholders, which are covered in detail in this section of the report. 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 interests 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 below.

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 2023, those discussions covered a broad range of topics, including the medium and long-term strategic direction of the Bank, financial performance and long-term plan, market dynamics, regulatory areas of focus and engagement with other stakeholders.

Stakeholder	How we engage	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	• Corporate strategic direction • Product growth • Financial performance • Strong management and aligned incentives • Market perception • Impact of future dilution • Valuation outcomes and exit	Our largest shareholders currently sit on the Board and therefore have direct input into key dimensions. The Board considers those dimensions based on: • 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 monitoring through the regular receipt and discussion of management information; • management performance assessed against an annual scorecard agreed at the start of the year, with short-term management incentives aligned to those of the scorecard, including a discretionary downward risk modifier to ensure performance isn't met by taking inappropriate risks, and longer-term incentives aligned to overall long-term business and share price performance; and • where required, external advice on key topics such as management incentives, market outlook, valuation, strategy and growth.

Stakeholder engagement continued

Our stakeholders continued

Our employees

Our people are at the heart of our success, and we strive to serve their needs as well as we can. 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.

DE&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 considered in deciding the leadership team's bonus element in 2023.

One of the DE&I initiatives rolled out across Zopa this year was our neurodiversity training. We partnered with a neurodiversity consultant, who delivered a range of training across the Bank, supporting various areas of the business. Our People Team, Talent Acquisition Team and all our People Managers received thorough neurodiversity training and more targeted job-specific training to help them understand how they can best support our neurodivergent employees and candidates at Zopa.

This training is continuing into 2024 across the Zopa community. We're proud to say it's had a very positive reception, and we're keen to do more work in this area in the future.

We hold a Bank-wide employee survey – the Zopometer – twice a year. We achieved consistent engagement scores of 73% in both May and October 2023. Our DE&I score was our highest-performing factor at 81%, showing a 1% uplift vs 2022.

In 2018, we signed the Women in Finance Charter, which encourages companies to have at least 33% of senior management roles held by women. We're proud to have achieved 44% of senior management roles being held by women in 2023 and aim to at least sustain that balance in 2024.

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 Zopian 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 44 nationalities, and 26.4% of our employees identify as ethnically diverse.

We design and deliver Bank-wide communications that speak to all these diverse Zopians through direct channels such as our weekly company meetings and regular strategy updates, as well as our weekly newsletters and huge variety of Slack channels.

Employee forums such as our DE&I Committee, our employee representative pilot group (Women In Business Network) and Mission Recognition, which provides nominations for monthly employee values awards at the individual and team levels, provide us with specific recommendations.

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 80%. 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 engagement continued

Our stakeholders continued
Our employees continued

Stakeholder	How we engage	What matters to them	How the Board considers it
Employees	• Employee engagement measured twice a year • Strategy updates • Regular Bank-wide announcements	• Gender pay gap • Fair remuneration • Flexible working • Wellbeing • Sense of belonging • Working hours • DE&I • Learning and development	For example, the Board evaluates results relating to the employee engagement surveys and management's plans for addressing areas requiring improvement. The Board evaluated the results on the gender pay gap and DE&I, and how management plans to make further improvements.

Supporting our team

"Neurodiversity training hitting Zopa is a fantastic move towards a more inclusive workplace, and I'm genuinely thrilled about it.

The training itself was great, offering valuable insights into the strengths and challenges of neurodivergent individuals. Armed with this knowledge, we're geared up to better understand and support our neurodivergent colleagues, fostering an inclusive work environment where everyone feels valued.

Zopa's commitment to cultivating a culture that values diversity and inclusion makes me proud to be part of this company. It's a step in the right direction, and I'm excited to see the positive impact unfold."

Beth Mcneilage
Internal Communications Manager

Stakeholder engagement continued

Our stakeholders continued

Our customers

Zopa is built on the vision that understanding and addressing unmet customer needs is key to improving financial wellbeing. This principle guides our product development, where regular interactions through surveys, interviews, social media and service channels help us paint a holistic picture of our customer base. We complement this qualitative data with in-depth analytics to uncover usage patterns, potential obstacles and how macro trends, like the cost-of-living crisis, might impact their experience. Using this rich insight, we aim to deliver solutions that truly address our customers' pain points and resonate with what they desire.

We have a particular focus on identifying and supporting customers facing financial hardship due to the current economic climate; proactive measures and tailored solutions become crucial in these situations.

Our commitment goes beyond words and Zopa customers alone. In 2022, we initiated the 2025 Fintech Pledge, which aspired to empower UK consumers to make 10 million positive financial choices by 2025. This industry-wide effort encourages actions like switching utilities, building credit and saving at higher rates, bolstering financial resilience in the face of rising living costs. In January 2024, together with our partners, we've already achieved 10 million positive actions – two years ahead of schedule. As such, the revised Pledge is aimed at encouraging 25 million positive actions by the end of 2025, representing approximately 50% of UK adults.

As a consequence of this unyielding focus on addressing our customers' needs and dedication to creating positive experiences, our blended net promoter score (NPS) of 72 is industry-leading across the customer journey. This is further solidified by the growing number of customers that seek deeper, multi-product relationships with Zopa.

Our customer strategy is actively directed by the Board, which receives regular updates on both the customer experience we deliver and the outcomes we achieve. This ensures ongoing alignment between customer needs and strategic direction.

By remaining focused on understanding and meeting customer needs, Zopa strives to be a driving force for positive financial change, one empowered individual at a time.

Stakeholder engagement continued

Our stakeholders continued
Our customers continued

Stakeholder	How we engage	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 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 emerging themes with the rest of the business	• Value (interest rate, fees, etc.) • Certainty (of rate and acceptance) • Speed of disbursal, specifically for loans • Ease of understanding and managing, and achieving better outcomes for themselves	The Board evaluates whether the Bank'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. For example, in 2023, the Board received regular updates on the 2025 Fintech Pledge. Similarly, the Board received customer call listening updates highlighting the quality of service that our customers received. This reinforced the Board's desire to continue to invest in those services. The Board has also considered the implications of the Financial Conduct Authority's (FCA) new Consumer Duty regulation and how Zopa should respond to it.
Depositors		• Security of their savings (FSCS coverage) • Interest rate • Ease of application and management	The Board assesses whether the Bank's actions and products will benefit Zopa's customers. In 2023, the Board maintained oversight of deposit pricing and increases in market and Zopa pricing in the rising base rate environment.

Stakeholder engagement continued

Our stakeholders continued

Our suppliers

2023 saw us leverage a diverse network of suppliers to deliver essential services and goods across our business domains, including critical operations. To maintain our high service standards, we've continued to refresh our procurement processes to align with stringent PRA regulations and expectations. This ensures careful selection of partners who share our commitment to excellence.

Furthermore, we've integrated sustainability and diversity considerations into supplier onboarding, solidifying our commitment to responsible sourcing. This approach helps us to identify partners who not only meet our operational needs, but also align with our values.

Maintaining a comprehensive supplier management framework ensures a risk-based approach, minimising potential issues for our customers and ourselves. Key outsourcing decisions, including ongoing monitoring of critical suppliers, remain firmly under Board oversight. This rigorous approach guarantees reliable partnerships and fuels our dedication to operational excellence.

Stakeholder	How we engage	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 proportionate ongoing supplier due diligence • Conduct proportionate monitoring and oversight of suppliers throughout the business relationship, on both commercial performance and suppliers' continuing adherence to Zopa's agreed standards	• To understand which services can add value to our business model and operations • To be remunerated fairly and in a timely fashion for their services • To build long-lasting business relationships founded on a deep understanding of each other's strategic priorities • To be satisfied that we follow the rule of law, comply with all relevant regulations and act ethically • Open and honest communication where performance is a concern and improvement is required	• Maintains oversight of supplier performance and risk assessment, including review of regular management reports. • Oversees the selection process for new material suppliers to ensure that the chosen supplier is the best choice for Zopa. • Ensures appropriate action is taken where performance is a concern and improvements are required. For example, during the year, the Board 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 stakeholders continued

Our industry bodies

We actively participate in leading industry bodies like the Finance and Leasing Association (FLA) and UK Finance. These memberships offer a valuable exchange:

- Sharing best practices: We learn from and contribute to industry standards, ensuring we continuously improve our operations.
- Navigating regulation: Timely insights on new regulatory developments help us to stay compliant and proactive.
- Collective voice: Joining forces allows us to shape industry responses to consultations and influence positive change.
- Market knowledge: Access to research, statistics and analysis keeps us abreast of industry trends and consumer behaviours.

Our FLA engagement focuses on car finance, while with UK Finance we engage on matters related to credit cards, personal banking and fraud prevention. Subject matter experts across the Bank engage with relevant forums and working groups, while a central contact facilitates information sharing. Regular membership level reviews ensure we optimise our participation and derive maximum value.

Stakeholder	How we engage	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 • Attended networks for senior executives • Used publications for horizon scanning	• Attended working party meetings, forums and discussion groups • Creating a single voice for the retail banking sector • Enhancing UK financial services market competitiveness • Facilitating innovation • Supporting customers by promoting safe and transparent banking	The 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 used when the Board makes strategic decisions regarding the Bank.

Stakeholder engagement continued

Our stakeholders 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.

By fostering strong relationships with the regulators, Zopa Bank demonstrates its commitment to transparency, accountability and responsible financial practices.

This proactive engagement ensures the Bank operates within the highest standards, safeguarding the interests of its customers and contributing to the stability of the financial system.

Stakeholder	How we engage	What matters to them	How the Board considers it
UK regulators	• Held periodic meetings between management, directors and the regulators • 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 • Requested variation of regulatory permissions to enable expanded product offerings • Escalated matters of interest on an ad hoc basis	• Governance, culture and accountability at Zopa • How we treat our customers, and ensuring we deliver good outcomes for them, consistent with the FCA Consumer Duty • Operational resilience of our business • Whether we're appropriately capitalised and have sufficient liquidity, including during a period of stress	The Board receives updates on the Bank's engagement with the PRA and FCA, and on new regulatory initiatives and publications, at every meeting. A full review of the regulatory environment is also conducted annually as part of the strategy process.

Stakeholder engagement continued

Our stakeholders continued

Our communities, environment and climate change

Our charitable donations this year were made to The Money Charity UK, which aims to increase the financial capability of those who need it most.

For over 25 years, The Money Charity has been the UK's Financial Capability charity and aims to help everyone achieve financial wellbeing by managing their money well.

This aligns with Zopa's mission, and we were pleased to be able to partner with them.

In 2023, the Bank made direct charitable donations totalling over £2,000.

Stakeholder	How we engage	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 and resilience • How to spot and avoid financial fraud • Mentoring • Partnership with Code First Girls	• Mentoring • Equality of opportunity • How our activities impact the environment – GHG emissions • Sustainability commitments	During the year, the Board continued to support the Bank's ESG 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 reviewed the new climate-related financial disclosures in the Annual Report and supported establishing of the new ESG governance structure.

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.

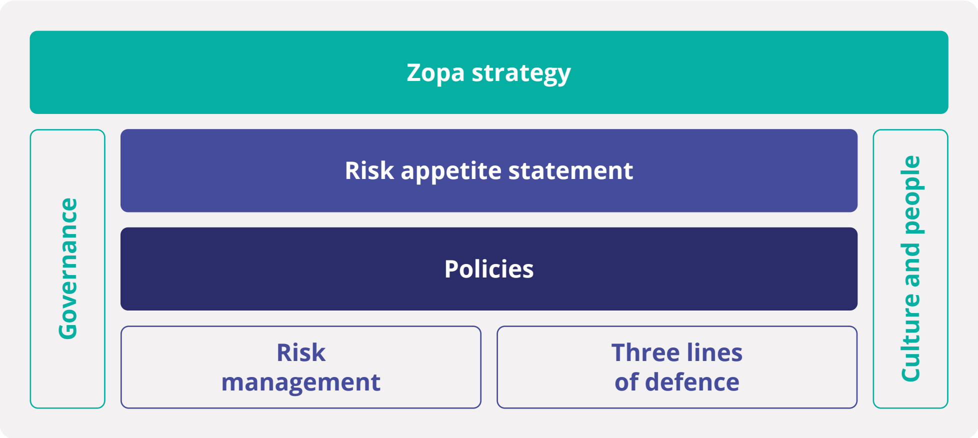
Risk culture and people

Zopa's culture and people 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 our 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 to 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 cause of risks, not their symptoms.

Risk management continued

Culture continued

This culture is embedded by the Board and management, which 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 Compliance Senior Director 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 Board Remuneration Committee, based on behaviours that balance risk and reward;
- managing succession planning, which is overseen by the Board Nomination Committee;
- 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 the Compliance Senior Director to map responsibilities to job descriptions so that all senior managers falling under the senior Managers and Certification Regime (SM&CR) have clear statements of responsibilities and the related risk limits are translated into employees' individual objectives;
- maintaining records of managers subject to SM&CR 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 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's Board Risk Committee (BRC) and the executive Risk Management Committee (RMC), with remedial actions then agreed.

Risk management continued

Three lines of defence

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

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 it monitors and conducts assurance on the first line's implementation of it, to ensure that the Bank remains within risk appetite. It reports regularly to the Board and management on this.
3. In the **third line**, internal audit performs independent periodic checks to evaluate the effectiveness of the first two lines against the standards approved by the Board, and to report on findings to the BAC.

Risk governance

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

- The **Board**, with the support of its 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, while 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 SM&CR 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 Senior Director/ Money Laundering Reporting Officer 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', who are responsible for second-line oversight of each individual risk type, including setting policies and conducting monitoring and assurance activities.
- Management committees provide a forum for the first line and second line to review and discuss risk issues to aid in the discharge of their responsibilities. Committees perform regular review of reporting, challenge first-line SMFs and issue recommendations on various matters to final decision-makers.

Policies and procedures

Policies, as set by the second line, set out the minimum standards that the 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. This includes: 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.

Risk management continued

Risk management continued

- **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 is reported to senior individuals and committees at management and Board level, enabling appropriate visibility, discussion and challenge. This includes: monitoring of risk appetite; other items of management information; forecast and actual performance data; and regular reporting on these to the relevant management and Board committees.
- **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 ICAAP, ILAAP and the Recovery Plan.

Principal risks

The principal risks – or major 'risk types' under Zopa's RMF – faced by the Bank given its business model are credit risk, capital risk, liquidity risk, market and interest rate risk, operational risk and strategic risk. The Bank also considers customer outcomes risk. This is a lens through which to view the aspects of operational risk that could cause poor customer outcomes.

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 subtypes:

- Counterparty credit risk: The risk that counterparties to which 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 depreciating 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 that loans are affordable for them.

Credit concentration risk

The Bank aims to limit concentrations of accounts that might be disproportionally impacted under stress to ensure that credit losses are within 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 Zopa 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; or
- the Bank's credit exposures are all in the UK.

Risk management continued

Principal risks continued

Credit risk continued

Definition

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

Credit risk includes the following subtypes:

- Counterparty credit risk: The risk that counterparties to which 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.

Assessment and measurement

The Bank's accounting policy for the measurement of ECLs can be found in note 37.

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 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-internal ratings based (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 life cycle.

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

Risk management continued

Principal risks continued

Capital risk

Definition

Capital risk is the risk 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 leading to capital resources being below required levels.

Other, less material, risks include:

- capital requirements exceeding 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 the 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 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 2023, 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 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 the financial review on page 17, note 37 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 the Bank ICAAP, which the Bank Board approves.

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

Risk management continued

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 exceeding expectations.

Other, less material, risks include:

- credit card outflows exceeding expectations;
- loan prepayments falling short of expectations;
- loan and credit card delinquencies exceeding expectations;
- lower resave rates than expected for retail deposits as they reach maturity;
- early fixed-term and notice deposit withdrawals exceeding expectations;
- lower value on high-quality liquid assets (HQLA) when converted into cash in a period of stress;
- lower new funding volumes than expected;
- increased cost of funds;
- outflows to corporate suppliers exceeding expectations; and
- repayment of tier 2 subordinated debt.

The Bank's liquidity profile can be found in note 37.

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 the 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.

Furthermore, in 2023, the Bank opened repo lines with different counterparties that can be used if the HQLAs mentioned above need to be converted into cash in a period of stress, hence avoiding any potential loss that could crystallise if these assets had to be sold instead.

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. Key liquidity ratios are disclosed and discussed in the financial review on pages 20 and 21.

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 the 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 subtypes:

- 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 HQLAs. The Bank has no exposure to LIBOR.

In 2023, 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 portfolio of HQLAs in the form of covered bonds and money market funds, 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 impacting net interest income.

Other, less material, risks include:

- significant falls in the value of any financial instruments held in the liquid asset buffer, resulting in losses being realised when they're sold in a period of stress.

The Bank's repricing gap and sensitivity to interest yield curve analysis can be found in note 37.

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 interest rate risk exposure. Specifically, during 2023, Zopa continued booking interest rate swaps for hedging purposes, with a total nominal of £550m at the end of the year.

The Bank 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, but not limited to, 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 market and interest rate risk in the banking book 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.

Risk management continued

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
Employee and company conduct	The risk of failure to instil good conduct in Zopa's employees or corporate culture, leading to poor customer outcomes or damage to market integrity
Products and customer interactions	The risk of Zopa's products or customer service interactions failing to deliver good outcomes for customers
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 data, financial crime, employee and company conduct, employment practices and remuneration)
External fraud	The risk to Zopa's or customers' assets from external theft or fraud
Internal fraud	The risk of staff intentionally defrauding Zopa or customers' accounts
Business continuity	The risk of disruption to critical business processes due to a failure of the business to respond appropriately to adverse events
Technology failure	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 captured, stored, processed, transferred or disposed of
Legal	The risk of unenforceability or legal claim
Finance processes	The risk of errors in executing key financial processes (including accounting, financial reporting, tax and payments)
Regulatory reporting	The risk of regulatory returns being inaccurate, incomplete or not submitted in line with regulatory requirements or timeframes
Model risk	The risk of models that are flawed or misused
Intermediary risk	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
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

Risk management continued

Principal risks continued

Operational risk continued

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.

Risk profile

The material operational risks that the Bank faces are:

- fraudulent personal loan or credit card applications;
- cyberattacks 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 being treated unfairly or suffering injury, requiring remediation; and
- Zopa's physical assets being 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.

Risk management continued

Principal risks continued

Operational risk continued

Definition	Assessment and measurement	Monitoring and reporting
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 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 2023, 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 £22.8m as at 31 December 2023.	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.

Risk management continued

Principal risks continued

Customer outcomes

Definition

Customer outcomes risk captures Zopa's actions which result in poor outcomes for customers. This is a lens through which to view the aspects of operational risk that could cause poor customer outcomes.

Risk profile

The material sources of customer outcomes risk in the Bank's business are listed in the table below:

Possible sources of customer outcomes risk	Potential risk area
Product	Product design/targeting Customer journey/life cycle Distribution and marketing
Operational processes	Arrears management Redress calculations Outsourcing arrangements Cyber and information security Financial crime and fraud events
Credit	Automated credit decisioning Lending practices (e.g. affordability checks)

Risk management continued

Principal risks continued

Customer outcomes continued

Definition

Customer outcomes risk captures Zopa's actions which result in poor outcomes for customers. This is a lens through which to view the aspects of operational risk that could cause poor customer outcomes.

Mitigation

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

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

In practice, customer outcomes 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

Customer outcomes 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 customer outcomes 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, this includes reports on Consumer Duty.

Risk management continued

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 Bank'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

In addition to climate-related financial risks and opportunities disclosed on pages 33 to 36 of the report, the Bank 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 for UK consumers remained challenging during 2023. Interest rates peaked at 5.25% in August 2023 and remained at that level for a period of time. Despite early signs of falling inflation, the increased geopolitical tensions and uncertainty regarding growth have meant that the interest rates are expected to remain at the current level for longer, keeping UK households and businesses under pressure from higher borrowing costs.	• 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. • 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 still higher and unstable 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 remain higher, driven by the increased bank rate environment and the competitive market dynamics, although the expectation is that they'll start decreasing in 2024. The fundraising environment in 2023 was challenging and this dynamic could persist in 2024.	• Close monitoring of market trends is conducted. • Funding diversification options are considered as part of strategic planning. • Management has multiple levers to manage capital runway, including reducing gross new lending and executing loan sales.
Failure of a critical outsourcing provider or supplier	A failure or defect in an outsourcing provider's performance of critical functions for the Bank 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.

Company viability statement

In assessing the viability of Zopa Bank in accordance with provision 31 of the UK Corporate Governance Code, the Board has considered the following:

- the impact of current and emerging risks as identified through the Company's established risk management framework, and the overall control environment to manage these risks appropriately;
- updates on the business performance and the progress of execution of its strategy at various times during the year to assess the current and future financial performance and position of the business;
- the current and forecast liquidity and funding plans supporting the strategic objectives and plans;
- the updated business strategy, together with short-term and long-term (five-year) financial plans. These were considered by the Board in November 2023 and February 2024. These plans included various scenarios, such as the impact of the changing interest rate environment and other stress scenarios. These demonstrated that the Bank continued to operate within regulatory requirements for both capital and liquidity over the period;
- the quantity and quality of capital resources available to support the delivery of the Company's objectives. This included consideration of the effects of a changing regulatory landscape on the Total Capital Requirement, Pillar 2B and the CRD V combined buffer requirements, together with the effect of the Company's Recovery Plan to restore the capital position in scenarios of capital headwinds;
- the annual ICAAP and ILAAP results, and
- viability under specific internal and regulatory stress scenarios, as explained further below, including scenarios which might affect operational resiliency.

Zopa Bank performs regular stress testing. Internal stress testing encompasses a series of extreme but plausible scenarios covering a wide range of outcomes, risk factors, time horizons and market conditions. The Bank also conducts reverse stress testing, identifying and assessing scenarios that could cause Zopa Bank's business model to become unviable.

The directors review the outputs of stress testing as part of the approval processes for the ICAAP, the ILAAP, risk appetite and regulatory stress tests.

As part of such stress testing, key ongoing risks were considered, including:

- economic uncertainty arising from the ongoing cost-of-living crisis, changes in the interest rates environment, inflation and the wider UK economy;
- geopolitical impact of the war in Ukraine and the Middle East on the UK economy and consumers; and
- financial risks arising from the transitional impacts of climate change on the Company's business.

The Board is satisfied that the range of scenarios considered for stress testing over the period of three years is appropriate to help in the assessment of Zopa Bank's viability.

Governance

What's in this section

Board of Directors

Gordon McCallum

Appointed: 12 January 2022

Roles: Independent non-executive director

Chair of the Zopa Group Board and Chair of the Zopa Bank Board, Chair of the Board Nomination Committee

Committees: Board Nomination Committee, Board Remuneration Committee

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 (NED) 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).

Gaenor Bagley

Appointed: 13 December 2018

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

Committees: Board Audit Committee, Board Nomination Committee, Board Risk Committee, Board Remuneration Committee

Gaenor has over 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. Gaenor is the Board's Environmental, Social and Governance (ESG) Champion.

Richard Goulding

Appointed: 30 January 2018

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

Committees: Board Audit Committee, Board Nomination Committee, Board Risk Committee, Board Remuneration Committee

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

Paul Cutter

Appointed: 30 January 2018

Roles: Independent non-executive director

Committees: Board Audit Committee, Board Risk Committee

Paul has spent 25 years as a technology leader, building and leading technology teams for global digital businesses such as Flutter Entertainment plc, BSkyB and AOL. He brings knowledge of advanced digital technologies combined with modern software engineering techniques and strategies to grow and develop technology people. He is now focused on building a portfolio career as a non-executive director and an adviser to technology leaders.

Shown are the directors who held office as at 10 April 2024.

Key:

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

Board of Directors continued

Neil Cunha-Gomes

Appointed: 19 July 2023

Roles: Non-executive shareholder director

Committees: No appointments to Board committees

Neil is the Head of EMEA Fintech at the SoftBank Vision Fund. He has led numerous investments into fintech, insurtech and software scale-ups. Prior to SoftBank, Neil worked in private equity at Coller Capital and in structured finance at Deutsche Bank.

Giles Andrews, OBE

Appointed: 12 January 2022

Roles: Co-founder and non-executive director

Committees: No appointments to Board committees

Giles was one of five people who dreamed up Zopa in 2004. By 2007, he was Chief Executive Officer (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. Giles is an independent non-executive director (iNED) and Chair of the Transformation Oversight Committee at the Bank of Ireland Group plc in Dublin. Giles is also an iNED on the board of private bank C Hoare & Co.

Shown are the directors who held office as at 10 April 2024.

Key:

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

Michael Woodburn

Appointed: 12 January 2022

Roles: Independent non-executive director

Committees: Board Risk Committee

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's advanced over £3bn in credit and processed over £20bn in B2B payments. Previously, Michael was CEO 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.

Michael was appointed as a member of the Board Risk Committee in January 2024.

Scott Christopher Jones

Appointed: 12 January 2022

Roles: Non-executive shareholder director

Committees: No appointments to Board 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.

Board of Directors continued

Nicholas 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.

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 from its launch. 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.

Philippa Lambert

Appointed: 1 June 2023

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

Committees:

Pippa was previously Global Head of Human Resources at Deutsche Bank where she was responsible for leading the development of a successful and progressive HR transformation programme, focused on improving the group's culture, diversity and inclusion and digital agendas.

Prior to that, Pippa was Group Head of Reward at the Royal Bank of Scotland Plc (2011-2013) where she worked closely with the RBS Board on the redevelopment and restructure of the bank's compensation and benefits programme.

Pippa is currently a non-executive director and Board Remuneration Committee Chair at Aviva plc, a member of the Senior Salaries Review Board and a trustee at Future Dreams Charity.

Shown are the directors who held office as at 10 April 2024.

Key:

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

Board of Directors continued

Stephen Hulme

Appointed: 30 March 2021

Roles: Bank Chief Financial Officer (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 CFO at Tandem Bank, and he was previously CFO of PayPal's Credit division. Prior to PayPal, Steve spent 14 years with Capital One, completing his tenure there as CFO, International.

Peter Herbert

Appointed: 22 February 2018

Resigned: 26 September 2023

Roles: Chair of the Zopa Bank Board

Committees:

Peter has over 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.

Peter resigned from his role as the Chair of the Bank and from the Board on 26 September 2023.

Shown are the directors who held office as at 10 April 2024, except Peter Herbert who has been included given his previous role as the Chair of the Bank Board.

Key:

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

Our executive team

Jaidev Janardana

Chief Executive Officer (CEO)

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 more than 20 years' experience in consumer financial services and lending.

Steve Hulme

Chief Financial Officer (CFO)

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 CFO at Tandem Bank, and he was previously CFO of PayPal's Credit division. Prior to PayPal, Steve spent 14 years with Capital One, completing his tenure there as CFO, International.

Merve Ferrero

Chief Strategy Officer (CSO)

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

Merve led the launch of Smart Saver, a new savings product, and Zopa's banking licence readiness, which has allowed the Bank to grow and become profitable. As CSO, 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' 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

Peter Donlon

Chief Technology Officer (CTO)

Peter oversees Zopa's 250-strong technology team, expanding its best-in-class products and technology infrastructure while ensuring its platform retains an unrivalled leadership position in the use of artificial intelligence and machine learning. Along with engineering and data, Peter also leads the information technology (IT), information security (InfoSec) and programme management functions.

Prior to Zopa, Peter scaled Moonpig PLC's product, technology and data functions to 300 employees, and was key to its £1.2bn London Stock Exchange listing. Previously, he led Sainsbury's 500-person engineering team, delivering customer and back-office solutions for Sainsbury's 25 million weekly customers.

Kate Erb

Chief Operations Officer (COO)

Kate joined Zopa in June 2023 and leads the customer operations, people and first-line risk functions, including operational resilience and third-party management. She has over two decades of financial services experience working across start-ups, scale-ups and mature businesses in the UK and Australia. Prior to joining Zopa, Kate was Director of Risk Operations at Capital One and Chief Customer Officer at Oakbrook Finance. She started her career at KPMG, where she qualified as a chartered accountant.

Amy Fisher

Chief Analytics Officer (CAO)

Amy leads Zopa's analytic and data science functions. Amy initially joined Zopa in 2017 as Chief Credit Officer and then Chief Risk Officer, leading the development of Zopa's risk management framework through the Company's successful application for a full banking licence. After a two-year career break spent over-landing in Africa, Amy re-joined Zopa in 2023 as Interim Chief Operating Officer before moving into her current role as Chief Analytics Officer.

Prior to Zopa, Amy spent over 15 years at Capital One, holding leadership roles in Credit Analytics, Marketing, Operations and Risk Management.

Our executive team continued

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 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' 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.

Tim Waterman

Chief Commercial Officer

Tim leads Zopa's lending products, which include unsecured personal loans, credit card, point-of-sale (PoS) and secured car finance. He's responsible for lending business profitability while ensuring Zopa delivers good customer outcomes.

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.

Graham Robinson

Chief Risk Officer (CRO)

With over 25 years' experience of leadership across credit risk, operations and digital, Graham leads on risk management at Zopa as its CRO. 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.

Corporate governance

This part of the strategic report sets out the corporate governance structure, arrangements and approach.

As a public interest entity authorised by the Prudential Regulation Authority (PRA) and regulated by both the Financial Conduct Authority (FCA) and PRA, the Bank is required to comply with a number of statutory and regulatory governance requirements. We recognise the importance and value of robust corporate governance and aim to reflect best practice in our governance structure and arrangements to ensure the highest standards are achieved. With this in mind, we voluntarily apply the UK Corporate Governance Code 2018 (the 'Code'), as published by the Financial Reporting Council on its website, www.frc.org.uk, in addition to our statutory and regulatory requirements. More information about how we comply with the Code can be found on page 76 of this report.

The Bank's progress and achievements in 2023 are testament to the strength of its governance structure, which has provided a stable framework for navigating the sustained economic and political challenges. Looking ahead, the Bank's robust corporate governance framework will continue to evolve to support its mission and ensure that innovation and growth promote the Bank's long-term, sustainable success.

Compliance with the UK Corporate Governance Code (2018)

For 2023, the Bank voluntarily applied the principles and provisions of the Code. To help our stakeholders evaluate our approach to governance, the table below identifies the parts of this report which demonstrate how we've applied each of the principles. The Board considers that, for 2023, the Bank has applied all the principles set out in the Code.

Application of the Principles of the Code	Principle	Pages
Board leadership and company purpose		
Section 172 statement	A	40
Who we are, and what our mission is	B	2
Risk management	C	50 to 65
Stakeholder engagement	D	41 to 49
Whistleblowing	E	92
Division of responsibilities		
Corporate governance	F, G, H & I	75 to 84
Composition, success, evaluation		
Board Nomination Committee report	J & K	93 and 94
Board effectiveness	L	77
Audit, risk and internal control		
Policies and procedures	M	87 to 92
Directors' report	N	99 to 101
Risk management – Principal risks	O	53 to 64
Remuneration		
Board Remuneration Committee report	P, Q & R	95 to 98

Corporate governance continued

Compliance with the UK Corporate Governance Code (2018) continued

As we aren't a publicly listed company, there are some provisions of the Code with which we don't currently comply for various reasons relating to the Bank's size, complexity, history and/or ownership structure. In each case of non-compliance, we have an appropriate and proportionate alternative arrangement in place to ensure we maintain the highest standards of corporate governance. The Bank wasn't compliant with the following provisions of the Code in 2023:

Provision 4

Provision 4 states that when 20% or more of votes have been cast against the Board recommendation for a resolution, the Bank should explain, when announcing voting results, what actions it intends to take to consult shareholders to understand the reasons behind the result. The Bank doesn't currently comply with this provision because it isn't publicly listed and thus is not required to announce the results of shareholder resolutions.

Provision 11

The Board does not currently comply with Provision 11 which requires that at least half the Board, excluding the Chair, should be non-executive directors whom the Board considers to be independent. Given the Bank's current stage of maturity, the Board remains confident that its current composition is appropriate to deliver against the Bank's strategic priorities and long-term business plan.

The Board's composition meets the PRA's expectations for governance in its new Supervisory Statement SS3/21 for new and growing banks to have at least three iNEDs, including the Chair. The Board has a total of 12 directors comprised of both executive and non-executive of which 6 (including the Chair) are independent and it considers that the Chair's casting vote is sufficient from an independence perspective.

The composition of the Board is kept under close review and evaluated as part of annual effectiveness reviews to ensure it remains fit for purpose.

Provision 12

Provision 12 requires that the Board should appoint one of the iNEDs to be the senior independent director (SID) to provide a sounding board for the Chair, serve as an intermediary for the other directors and shareholders and lead the appraisal of the Chair's performance.

The Board hasn't appointed a SID, but in the absence of a formally appointed one, the Chair of the Board Remuneration Committee is responsible for evaluating the performance of the Chair of the Board in line with the performance evaluation process approved by the Board Nomination Committee. This process is formalised in the Board Nomination Committee's terms of reference.

Provision 18

Provision 18 provides that all directors should be subject to annual re-election. The Bank isn't a publicly listed entity and therefore isn't required to put the directors forward for annual re-election. However, all NEDs are retained on three-year contracts which are fully reviewed by the Board Nomination Committee and Board when considering extension of the contract at the point of expiry. For iNEDs, contracts aren't extended beyond nine years. Directors who perform a senior management or certified function are subject to fitness and propriety assessments on an annual basis which includes consideration of honesty, integrity and reputation; competence and capability; and financial soundness. The Chair of the Board, with input from the Board Remuneration Committee, also reviews the performance of the Board on an annual basis.

Corporate governance continued

2023 Governance in view

In 2023, we made some key changes to strengthen our corporate governance arrangements:

- to align with best practice, we split our joint Nomination and Remuneration Committee into two separate committees, each with its own comprehensive terms of reference. In doing so, we were able to increase the time spent by each committee on its respective responsibilities, resulting in more focused agendas, in-depth discussions and purposeful decision-making. For more information about the activities of these committees, see pages 93 to 98;
- on 1 June, the Board appointed Pippa Lambert as an iNED. Pippa gained regulatory approval as Chair of the Board Remuneration Committee and sits on the Board Nomination Committee. She brings a wealth of experience to the Bank and has enhanced the Board's diversity and composition. For more information on Pippa's experience and contribution, see the information on our Board of Directors on page 70 and on the Board Remuneration Committee activity on page 95;
- following the resignation of Peter Herbert as Chair in September, Gordon McCallum was unanimously appointed by the Bank Board as Chair. Gordon's appointment as Chair aligns the Bank Board leadership with that of the holding company, Zopa Group Limited, providing strength and stability at a time of rapid growth. Gordon chairs the Board Nomination Committee and has received regulatory approval for the role of Chair to include being Chair of Board Nomination Committee. For more information, see the information on our Board of Directors on page 68 and on the Board Nomination Committee activity on page 93;
- The Bank Board terms of reference and each of its committees' terms of reference were updated to reflect and embed ESG reporting responsibilities across our governance structure. For further information about the Bank's ESG strategy and climate-related financial disclosures, see page 29; and
- The Board appointed iNED Michael Woodburn as Board Champion for Consumer Duty and iNED Gaenor Bagley as Board Champion for ESG. These new roles enhance the flow of communication to the Board about the Bank's progress in these specific areas and amplify the stakeholder voice during Board discussions relating to Consumer Duty and ESG strategy.

Board effectiveness

The Board takes its role and responsibilities seriously, and it carries out regular effectiveness reviews to ensure its continuous improvement and development. An external evaluation of the Board was last performed in 2021 and, in line with Provision 21 of the Code, the Board will commission an externally facilitated evaluation in 2024 to review its overall performance, and that of its committees, as well as the Chair and individual directors. An internal review was conducted in 2022, when the membership of the Group and Bank Boards was aligned to review the Bank Board's effectiveness following the expansion.

Governance structure

Our governance structure provides a robust and resilient framework through which the Bank is directed and controlled effectively. It's comprised of the Board, Board committees and executive committees, and it's designed to support the delivery of the Bank's mission and vision with all our stakeholders at the heart of our approach.

Our Board

The Board sets the strategy for the Bank and is responsible for ensuring that it delivers against its financial and business objectives in a way that promotes the desired culture at Zopa and with regard to the risk appetite and interests of all stakeholders. The Board also holds responsibility for the oversight and control of the management of risk and setting the risk appetite.

The Board ensures that the Bank and the Board itself comply with the Articles of Association and all relevant legal, regulatory and governance requirements. The Board has adopted a formal schedule of matters reserved for its approval, which includes decisions related to strategy and budget, financial control, risk management, governance, remuneration and key policies. Certain responsibilities are delegated to the Board committees. For more information on the responsibilities of Board committees, see the committee reports on pages 85 to 98.

The Board is chaired by Gordon McCallum and comprises of executive, independent non-executive and non-independent non-executive directors who represent key shareholders.

Corporate governance continued

Governance structure continued

Board committees

The Board has delegated certain responsibilities to its committees to help it fulfil some aspects of its role. There are four committees: Audit, Risk, Nomination and Remuneration. Each committee has its own written terms of reference which detail the objectives of its work and the authority delegated to it by the Board. Those are reviewed and approved annually. The committees play a crucial role in the Bank's governance structure, providing opportunities for deeper discussion and analysis by our expert iNEDs. Every committee has access to external independent expert advice and the services and support of the Company Secretary.

Our committees are chaired by iNEDs, who provide regular updates to the Board on their activities after each meeting. The composition of each committee is reviewed annually by the Board to ensure that it continues to be fit for purpose and meet any legal and regulatory requirements. To find out which Board members sit on our committees, see 'Board of Directors' on pages 68 to 71. For further information on our Board committee activities, see our committee reports on pages 85 to 98.

Executive Committee

The Executive Committee (ExCo) meets monthly and is made up of our executive team, and it's chaired by the CEO. It plays a vital role in executing the strategy set by the Board and ensuring effective monitoring and control mechanisms are in place. The ExCo is supported by management committees which provide specialist oversight and responsibility for areas including risk management and assets and liabilities.

Division of responsibilities

There's a clear division of responsibilities between the executive and non-executive functions of the Bank, as set out in the Bank's delegated authority framework (DAF). The DAF delineates the process applied for authorities for business decisions, financial transactions and contracts, and approval paths for key governance documents. It identifies how authority for all these decisions is determined, including the origination for all decisions at Board level, and whether it can be delegated to the CEO or further delegated to management below it in the wider business.

In line with Provisions 9 and 14 of the Code, the roles of Chair and CEO are held by separate individuals, and the responsibilities of each role are set out in writing, reviewed and approved by the Board.

Key roles

Chair

The principal role of the Chair is to provide leadership to the Board of Directors and to ensure good governance of the Board and its committees. The Chair promotes the desired culture of open, impartial and appropriate debate at the Board level and monitors its performance and composition. They play a key role in ensuring effective communication with shareholders and other stakeholders. The Chair also ensures that the Board plays a full and constructive role in the development and determination of the Bank's strategy, risk appetite and commercial objectives. Our Chair role is held by an iNED.

CEO

The CEO is responsible for leading the execution of the Bank's long-term strategy to create shareholder value through a sustainable and viable enterprise. The CEO is responsible for day-to-day management decisions and acts as a direct liaison between the Board and management, while providing leadership to the executive team and harnessing their skills to realise the Bank's mission.

Company Secretary

All directors always have access to the Company Secretary's advice and services. The Company Secretary provides legal and governance support to the Board and executive management, and they ensure that the flow of information between the Board and the ExCo is fit for purpose, facilitates discussion and promotes effective decision-making.

Corporate governance continued

Key roles continued

NEDs

As mentioned in 'Governance structure', we have iNEDs and non-independent NEDs who represent key shareholders. All our NEDs provide constructive challenge to executive management and use their experience and expertise to develop the Bank's strategy. NEDs hold key senior management function (SMF) roles by chairing our Board Committees. For further information on our NEDs, see 'Our Board' on pages 68 to 71.

ExCo members

ExCo members support the CEO with the implementation of the Board-approved strategy and oversee the day-to-day management of the Bank. They implement the policies and procedures set by the Board and play a key role in managing the workforce and promoting the desired culture of the Bank. ExCo members include our executive team (see pages 72 to 74), those who hold senior management function (SMF) roles, and the General Counsel.

Board and Board-level committees

Board of Directors

- Board Risk Committee
- Board Audit Committee
- Board Nomination Committee
- Board 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

Board Nomination Committee
Responsible for ensuring the Board retains an appropriate structure, size and balance of skills to support strategic objectives and values

Board Remuneration Committee
Responsible for the determination, implementation and oversight of remuneration policies and practices for executives and non-executives, reviews and approves Zopa's approach to diversity, equity and inclusion

	No. of individuals	
Composition of the Board as at:	**31.12.23**	31.12.22
Number of independent directors	**6**	6
Number of non–independent directors	**6**	6
of which executive directors	**2**	2
Total number of directors	**12**	12

Corporate governance continued

Management committees

Board committees

The Board sets strategy and monitors its execution. It delegates detailed oversight of specific matters to its sub-committees.

Executive committees

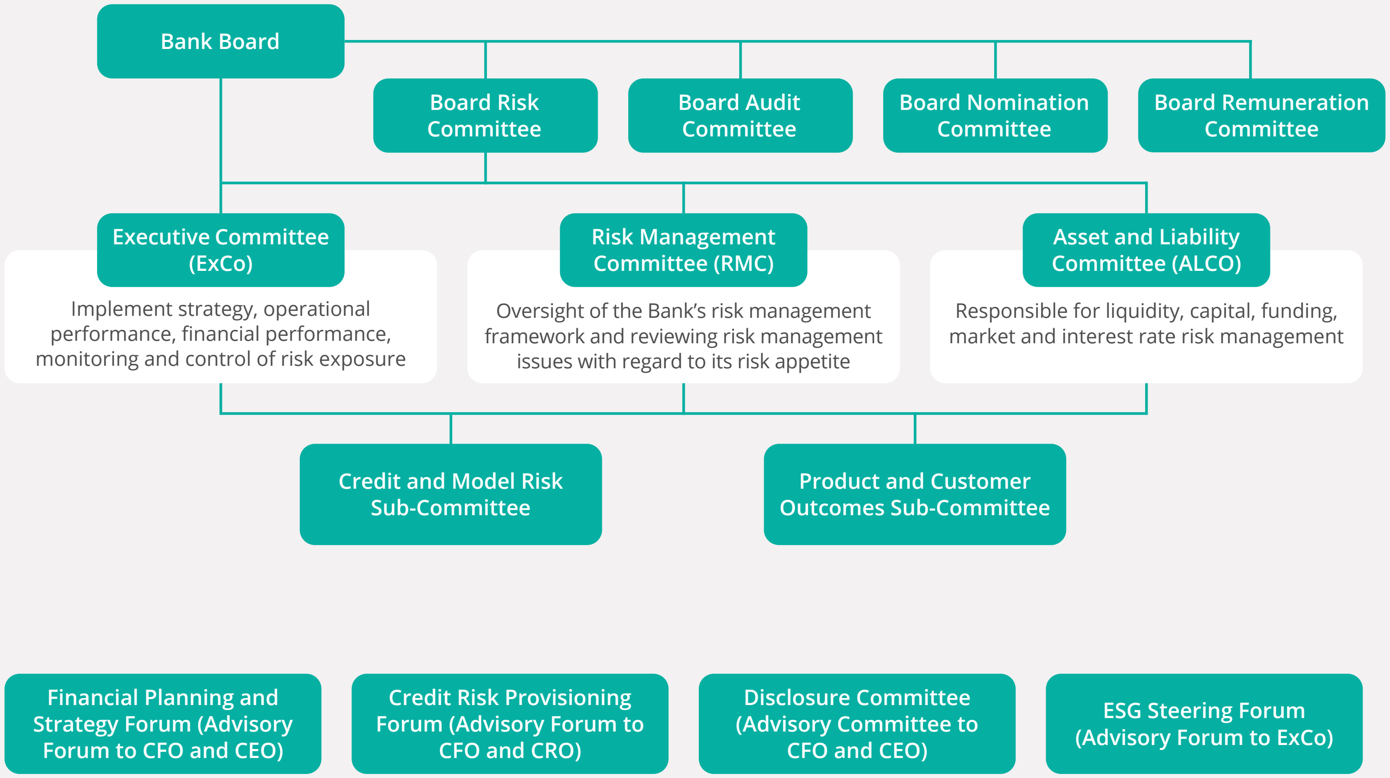
ExCo oversees operational execution of the strategy. It delegates detailed oversight of specific matters to its sub-committees.

Executive risk sub-committees

RMC delegates detailed executive oversight of specific risk types to its sub-committees.

Advisory bodies

Various advisory bodies provide advice and guidance to executives and committees on areas of interest for the Bank.



Corporate governance continued

The Board and its activities

Board leadership and company purpose

The Board recognises the value of good corporate governance in underpinning the Bank's strategic pillars to fulfil its mission and ensure the long-term sustainable success of the business. The frequency of Board meetings and the quality of discussions, constructive challenge and decision-making in the boardroom are key to this. The directors met 10 times in 2023, enabling them to perform their duties effectively and to support the executive team in executing the strategic goals set at the beginning of the year. The Board directors provide a strong combination of skills, experience and knowledge which is utilised effectively through delegated authority to specialist committees and, as a whole, at Board meetings to support the delivery of the strategy.

Setting our strategy

The Board holds an annual full-day strategy offsite session with the executive leadership team to discuss the progress made on the current strategy and to provide constructive challenge and guidance on the proposed strategy for the following year. The strategy offsite meeting took place on 31 October and provided the opportunity for the directors to focus on the Bank's strategic direction, challenge assumptions and decisions, and build relationships between the leadership team members and NEDs.

To find out more about the strategy set by the Board and how we met our goals and objectives for 2023, see 'Our business model and strategy' on pages 11 and 12.

Attendance

In addition to the appointment process for new NEDs, the Board, as part of its effectiveness review process, keeps under review the attendance of each of its directors. On appointment, directors are assessed to identify whether they can meet the time demands of their role on the Board, and during annual effectiveness reviews, the Board analyses individual director attendance at Board and Board committee meetings. Directors must seek Board approval when taking on additional non-executive or executive appointments to ensure they can continue to meet their responsibilities and comply with any statutory or regulatory rules related to the number of appointments held.

In 2023, the Board was satisfied that all directors had sufficient time available for meeting their duties and responsibilities. Where absence occurred at Board or Committee meetings, this was due to reasons related to urgent personal matters or prior commitments and was confirmed in advance of the meeting. All directors receive all Board materials in advance and are encouraged to raise any questions or provide feedback on the papers ahead of the meeting when they're unable to attend.

Board members (attendance)

	No. of individuals	
Composition of the Board as at:	**31.12.23**	31.12.22
Number of independent directors[1]	**6**	6
Number of non-independent directors	**6**	6
of whom executive directors	**2**	2
Total number of directors	**12**	12

1. The number of independent directors includes the Chair.

Member	Total meetings attended/meetings eligible to attend
Peter Herbert (Former Chair)	6/8
Gordon McCallum (Chair)	10/10
Paul Cutter	10/10
Gaenor Bagley	10/10
Richard Goulding	10/10
Jaidev Janardana	10/10
Steve Hulme	10/10
Giles Andrews	9/10
Nicholas Aspinall	10/10
Scott Christopher Jones	10/10
Andrew Cassin	5/5
Neil Cunha-Gomes	4/4
Michael Woodburn	10/10
Pippa Lambert	5/5

Note: The following changes to the Board took place during the year:

- Neil Cunha-Gomes was appointed as an NED on 19 July 2023. He represents a significant shareholder and replaced the previous shareholder representative, Andrew Cassin.
- Pippa Lambert was appointed as an iNED to the Board on 1 June 2023. She also received regulatory approval to hold SMF 12 responsibilities as Chair of the Board Remuneration Committee.
- Gordon McCallum was appointed as Chair of the Board and took up the role in October. He also received regulatory approval to hold SMF 13 responsibilities as Chair of the Board Nomination Committee.
- Peter Herbert resigned as a director and Chair of the Board on 26 September 2023.
- Andrew Cassin resigned as a director of the Board on 6 June 2023.
- Paul Cutter was re-appointed as an iNED.
- Richard Goulding was re-appointed as an iNED and Chair of the BRC.

Corporate governance continued

The Board and its activities continued

Board activity

The table below demonstrates how the Board's decisions linked to the strategic objectives set out at the beginning of the year and the key areas of focus.

Area of focus	Actions, decisions and outcomes
Strategy	• Oversaw the commencement of Bank regulated and unregulated lending through the DivideBuy platform operated by the Bank's sister company, Zopa Embedded Finance Limited. This decision supported delivery on the strategic objective to diversify customer acquisition channels, including through inorganic growth.
Finance and business performance	• Review and approval of 2023 annual budget and proposed budget for 2024. • Constructive challenge and approval of 2023 performance scorecard and proposed scorecard for 2024. These decisions related to finance and business performance, supported delivery on the strategic objective of strong profitable growth through effective monitoring and challenge of the path to profitability.
Governance	• Reviewed and approved governance arrangements for Zopa Embedded Finance Limited, its appointed representative. • Applied revisions to the DAF related to Bank decision-making. • Approved 2022 Annual Report and Accounts and the Pillar 3 disclosures. • Approved appointment of replacement investment director representing significant shareholder. • Reviewed and approved periodic updates to policies. • Resolved to separate the Nomination and Remuneration Committee to create two separate committees. These decisions supported the delivery of the strategic objectives to deliver strong profitable growth on strong foundations while doing right by our people and society by strengthening governance arrangements which helped to manage risk and contributed to the long-term sustainable success of the business.

Corporate governance continued

The Board and its activities continued

Board activity continued

Area of focus	Actions, decisions and outcomes
Risk and compliance	• Approved annual risk assurance plan. • Approved amendments to the Bank RMF to clarify how first and second-line risk management is applied in respect of certain risk types. The Board's monitoring of risk and decisions related to risk management supports the delivery of the strategic objective of delivering growth on strong foundations.
Regulatory matters	• Approved annual updates to the Bank Recovery Plan. • Oversaw the outcome of the Bank's periodic capital stress testing. • Approved the Bank's operational resilience self-assessment in line with regulatory requirements. • Reviewed and approved the annual fitness and propriety assessment of the Bank's senior managers. • Approved the Bank's internal capital adequacy assessment process (ICAAP) and Capital Management Plan. • Approved updates to the risk appetite statement (RAS) as part of the Bank's ICAAP and internal liquidity adequacy assessment process (ILAAP). • Approved the long-term financial plan for use in the Group's ICAAP. • Approval of an issuance of tier 2 notes to Zopa Group Limited. The Board's decisions related to regulatory matters fulfil the Board's regulatory responsibilities and support delivery of all the strategic objectives.
Remuneration, culture and people	• Approved the bonus payout against the 2022 scorecard performance. • Developed and approved a new framework for iNED remuneration. • Regularly reviewed evaluations of Company culture, including through two employee engagement surveys. • Approved the appointment of a new CTO, COO, a new iNED and Chair of the Board. • Re-appointed iNEDs to the Board and extended their service contracts. These decisions enabled the Board to support the strategic objective to do right by our people and society as they related to staff engagement and Zopa culture.
Equity	• Reviewed amendments to the Group option scheme rules and increase to the option pool for approval by the Group Board. The review of Group's option scheme rules supported delivery on the strategic objective to do right by our people and society.

Corporate governance continued

Conflicts of interest

All directors have a duty to avoid situations that may give rise to a conflict of interest. To manage this, we have formal procedures 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 Bank'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.

Gordon McCallum
Chair of the Board

10 April 2024

Report of the Board Risk Committee

Committee members (attendance)

Member:	Total meetings attended/meetings eligible to attend
Richard Goulding (iNED and Chair)	8/8
Paul Cutter (iNED)	8/8
Gaenor Bagley (iNED)	7/8
Peter Herbert (iNED) (Resigned 26 September 2023)	5/6

Introduction

The BRC advises the Board on the Bank's overall risk appetite and strategy, taking into account the current and future macroeconomic and financial environment. The BRC reviews the Bank's risk assessment processes and methodology and its capability for identifying and managing new risk types, as well as advising on proposed product developments and strategic transactions, and reviewing reports on any material breaches of risk limits. The BRC provides the advice, oversight and challenge required to embed and maintain a supportive risk culture throughout the Bank, which includes recommendations about the RMF and the internal financial and risk management controls and systems. The BRC also reviews the effectiveness of the risk function and the capital and liquidity adequacy requirements of the Bank on an ongoing basis.

The BRC also oversees:

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

For in-depth information related to risk management and how the Bank assesses its principal and emerging risks, please refer to 'Risk management' on pages 50 to 65.

BRC composition, skills and experience

The BRC's membership is comprised of iNEDs with relevant competency and experience. As Chair of the BRC, Richard Goulding provides vital expertise as the business continues to grow. Biographies for the BRC members can be found on pages 68 to 71.

Summary of activities

Area of focus	Actions, decisions and outcomes
Strategy	• Recommended the total capital requirement, capital and liquidity buffers, stress testing and capital management plan in the Bank ICAAP and ILAAP to the Board for approval. • Provided advice to the Board on the core assessments of prudential adequacy (ICAAP, ILAAP and Recovery Plan).
Oversight	• Set and recommended an annual assurance plan for Board approval and oversaw execution of the plan. • Approved a new regulatory reporting policy to support accurate and timely submission of regulatory returns. • Approved a revised interest rate risk in the banking book policy to reflect risks arising from introduction of hedge accounting. • Approved annual operational resilience self-assessment in line with regulatory requirements for recommendation to the Board and reviewed the technology dependencies for the Bank's important business services. • Advised the Board on the annual updates to the Bank Recovery Plan. • Received quarterly updates from the Product Customer Outcomes Committee (PCoC) in respect of Consumer Duty.

Report of the Board Risk Committee continued

Summary of activities continued

Area of focus	Actions, decisions and outcomes
Development of the risk function	• Approved updates to the RAS for recommendation to the Board as part of the Bank's ICAAP and ILAAP. • Approved revisions to the DAF for Bank decision-making for recommendation to the Board. • Advised the Board on amendments to the Bank RMF to clarify how first and second-line risk management is applied in respect of certain risk types.
Scenario planning	• Approved the stress scenarios, stress assumptions and management actions to be used in the Bank ICAAP and ILAAP.
Climate change	• Reviewed the Bank's management of financial risk arising from climate change, considering introduction of new products, changes to the macroeconomic environment and changes to disclosure requirements.
Products	• Advised the Board on the appointment of the Bank's sister company, Zopa Embedded Finance Limited, as a material outsourcer and appointed representative of the Bank in respect of origination and servicing of Bank PoS lending. • Recommended approval of Bank funding of regulated PoS lending. • Approved readiness assessment, implementation plan and associated changes to policies and the Bank RAS in respect of Consumer Duty.

Area of focus	Actions, decisions and outcomes
Remuneration and people	• Provided advice to the Nomination and Remuneration Committee on risk weightings to be applied for performance objectives and remuneration, and recommended bonus payout proposal to the Board. • Conducted bi-annual review of Company resourcing and engagement to inform the operational risk taxonomy.

Richard Goulding
Chair of the Board Risk Committee

10 April 2024

Report of the Board Audit Committee

Committee members (attendance)

Member:	Total meetings attended/meetings eligible to attend
Gaenor Bagley (iNED and Chair)	7/7
Richard Goulding (iNED)	6/7
Paul Cutter (iNED)	6/7

Introduction

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.

BAC composition, skills, experience and operation

The BAC composition fully complies with Provision 32 of the Code and is comprised of three iNEDs to ensure appropriate governance and compliance with the Code, and to ensure that the interests of the shareholders are properly protected in relation to financial reporting and internal control.

All members of the BAC are iNEDs with competence in the financial and technology sectors – their biographies can be found on pages 68 to 71. Gaenor Bagley is a former Big Four tax partner, with extensive Board-level experience and knowledge encompassing audit, tax, mergers and acquisitions, corporate purpose, diversity, talent management and sustainability, and has current and many past roles in banking, central government, education and health.

The BAC's effectiveness is reviewed as part of the Board evaluation process, for further information see page 77 Board effectiveness.

While the BAC's membership comprises the NEDs noted in the Committee members table, all NEDs may attend meetings as agreed with the BAC Chair. The CEO, CFO, CRO, Group Finance Director, Director of Financial Control, and internal and external auditors also attend meetings, as appropriate. Details of BAC membership and meeting attendance can be found in the Committee members (attendance) table. Over the year, the BAC also held separate sessions with the internal and external audit teams, without members of the executive management present.

Report of the Board Audit Committee continued

Summary of activities

Area of focus	Actions, decisions 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 and suitability 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. • Evaluated effectiveness of the external auditor.
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 (ECLs), effective interest rate 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. • Received updates on the effectiveness of the internal control over financial reporting.
Whistleblowing	• Reviewed the annual whistleblowing report and policy.

Report of the Board Audit Committee continued

Fair, balanced and understandable

The BAC, fulfilling its responsibility under Code Provision 25, carefully assessed whether the 2023 Annual Report and financial statements are presented in a fair, balanced and understandable manner. This rigorous process, mirroring past practices, involved:

- Early engagement: The BAC provided feedback throughout the drafting stages, ensuring subsequent drafts reflected its insights.
- Comprehensive oversight: Monitoring of senior management's timely and active participation, offering input, evaluation and verification.
- Direct dialogue: Private sessions with the external auditor allowed for in-depth discussions.

Key areas of judgement, estimation and uncertainty, along with emerging issues (detailed on pages 115-116), were closely examined by both the BAC and the auditor. The going concern assumption was particularly scrutinised.

To ensure compliance with the Code, the BAC evaluated the report against specific criteria:

- Fairness: Does it accurately reflect the full story of the year, consistent with communicated messages throughout?
- Balance: Does the narrative align with financial data, and are statutory and adjusted measures presented in a balanced way?
- Understandability: Is the information presented logically and clearly? Are key messages highlighted, and are tables or graphs used effectively to aid reader comprehension?

After thorough assessment, the BAC concluded that the 2023 Annual Report and financial statements, as a whole, are fair, balanced and understandable.

Going concern statement

The BAC reviewed management's assessment of the Company's ability to continue as a going concern. The results of that assessment are disclosed on pages 65 and 99. This assessment included an analysis of risks and uncertainties that could affect the going concern assertion. As part of the review, the BAC challenged and discussed management's assessment, asking questions about specific risks and uncertainties, and how they could be mitigated. The BAC also assessed whether the going concern disclosures in the financial statements are adequate.

Significant matters and areas of judgement considered in relation to the financial statements

The BAC assessed the appropriateness of the Bank's financial reporting and significant accounting policies, and the adherence to these policies. It reviewed whether the accounting estimates and judgements made by management were appropriate. The significant matters and accounting judgements considered by the BAC in respect of the 31 December 2023 year end are set out below.

Reporting matter	BAC action
Allowance for expected credit losses on loans and advances to customers The ECL allowance is dependent on management's judgements on matters such as forecasts of unemployment and debt service ratio, indicators of a significant increase in credit risk and material post-model adjustments. The total allowance for expected credit losses as at 31 December 2023 was £174.4m (2022: £141.1m).	The BAC reviewed management judgement papers setting out key judgements and assumptions used in determination of the ECL allowance. As part of this review, the BAC challenged the appropriateness of these judgements and assumptions in the context of model performance monitoring results, external macroeconomic and political developments, and benchmarks provided by the external auditor. The BAC also challenged the rationale and appropriateness of any post-model adjustments introduced by management to determine the final ECL allowance. Note 1.7 to the financial statements provides further detail on the significant judgements made. Conclusion: The BAC was satisfied that the ECL allowance and the disclosures provided in the financial statements were appropriate. The disclosures relating to ECL allowance are set out in note 15 and note 37 to the financial statements.

Report of the Board Audit Committee continued

Significant matters and areas of judgement considered in relation to the financial statements continued

Reporting matter	BAC action
Deferred tax recognition and measurement 2023 saw the first year of recognition of the deferred tax asset in the Bank's financial statements. The recognition and measurement of deferred tax asset requires management to make significant judgements about the ability of the business to continue to be profitable in the future and the extent that it is probable, that sufficient future taxable profit will be available against which unused tax losses can be utilised. The deferred tax asset recognised in 2023 was £24.4m. (2022: £nil).	The BAC reviewed management judgement papers covering the recognition and measurement of deferred tax asset. As part of this review, the BAC challenged the appropriateness of any underlying judgements and assumptions in the context of the Bank's short and long-term base financial plans, and alternative financial plans, such as those used in stress testing. The BAC also challenged any uncertainty about future events and how this has been considered and reflected by management in the recognition and measurement of the deferred tax asset. Conclusion: The BAC was satisfied with the judgements made and approaches used by management in recognition and measurement of the deferred tax asset. The BAC also concluded that the deferred tax asset disclosures set out in note 23 to the financial statements were appropriate.
Fair, balanced and understandable reporting and alternative performance measures (APMs) The Board is required to report as to whether the 2023 Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable. The Bank uses APMs in its reporting of financial performance, including the profit/loss before tax on an adjusted basis. These measures are used to provide insight into the underlying performance of the business. These measures are defined within the APMs and key ratios information on page 181.	The BAC reviewed the disclosures made in the Annual Report, in particular, statements referring to strategy, performance, key performance indicators, alternative performance measures and risks disclosures. The BAC challenged the understandability and consistency of some disclosures and requested management to make changes. The BAC also reviewed all alternative performance measures used in the Annual Report and disclosed on page 181. As part of this review, the BAC challenged the appropriateness of the APMs used and the extent to which these are monitored by the Board and used in management reports. The BAC further challenged whether it was appropriate to remove the profit/loss before tax on adjusted basis measure from the list of APMs disclosed in the 2023 Annual Report. The BAC was satisfied with management's rationale for this change and that the metric has now been discontinued in internal reporting and monitoring. Conclusion: The BAC was satisfied that the disclosures, including the APMs, made in the Annual Report are fair, balanced and understandable.

Report of the Board Audit Committee continued

External audit

Appointment and tenure

PwC LLP has been Zopa Bank's external auditor since the Bank was established in 2017. Consistent with the Financial Reporting Council's requirement for public interest entities, the Bank's intention is to undertake a formal external audit tender at least every 10 years. The next tender will need to be completed in time for the 2027 year end. The BAC has the authority to commission a formal tender process at any time it decides that this may be in the Bank's best interests.

Independence and objectivity

To ensure the independence and objectivity of the external auditor, the BAC ensures that there are appropriate safeguards in place, including:

- an independence policy for the external auditor, including a list of prohibited non-audit services, and the governance and limits over other audit-related and non-audit-related services;
- confirmations from the audit partner on the effectiveness of PwC's internal quality assurance process;
- the external auditor reports on its independence and objectivity at the start and throughout the audit process, including a formal attestation on an annual basis; and
- rotation of the audit partner every five years.

In 2023, Michael Whyte took over as PwC's audit partner from Nick Morrison, who after five years has rotated for independence reasons. The BAC would like to express its gratitude to Nick for years of dedicated service as the audit partner.

Effectiveness

The BAC Chair held at least quarterly private meetings with the external auditor during the year. Any member of the BAC or the external auditor can also request a private committee session without members of the executive management present. This allows the external auditor and members of the BAC to raise any issues of concern.

On an annual basis, the CFO shares feedback on the audit process, which the BAC considers when assessing the overall effectiveness of the external auditor. The external audit and senior management representatives from across the business meet after completion of the audit to debrief and agree on actions that can make the audit process more effective. A summary of actions is presented to the BAC, including regular monitoring.

Overall, the BAC is satisfied with the effectiveness of the external auditor.

Non-audit work

PwC did not provide any non-audit services during 2023. The non-audit fees disclosed on page 120 relate to an annual subscription fee to PwC's digital platform, Viewpoint, that provides accounting standard, financial reporting, business and regulatory hot topics insights that are generic in nature and not specifically tailored to Zopa.

Internal audit

The internal audit function is fully outsourced to BDO, with the BDO's engagement leader fulfilling the role of the Head of Internal Audit (BDO Head of Internal Audit). The primary role of the internal audit is to help the Board and executive management to protect the assets, reputation and sustainability of Zopa Bank Limited. It does this by assessing whether all significant risks are identified and appropriately reported by management and the risk function to the Board and executive management; assessing whether they're adequately controlled; and by challenging executive management to improve the effectiveness of governance, risk management and internal controls.

Internal audit acts primarily to provide the BAC with the information necessary for it to fulfil its own responsibilities and duties. Implicit in internal audit's role is that it supports management to fulfil its own risk, control and compliance responsibilities.

Report of the Board Audit Committee continued

Internal audit continued

Independence

The BDO Head of Internal Audit has free and full access to the BAC Chair. The BDO Head of Internal Audit liaises with and reports administratively to the CEO, who provides day-to-day oversight, but the reporting line is to the BAC Chair.

The appointment or removal of the BDO Head of Internal Audit is performed in accordance with established procedures and subject to the approval of the BAC Chair.

BDO have an impartial, unbiased attitude and avoid conflicts of interest. If the independence or objectivity of the internal auditor is impaired, details of the impairment should be disclosed to either the CEO or the BAC Chair, depending on the nature of the impairment.

Further, BDO isn't authorised to perform any operational duties for Zopa, initiate or approve accounting transactions external to the service, or direct the activities of any Company employee not employed by the internal auditor.

Objectivity

The BAC approves the Internal Audit Charter on an annual basis. It also monitors and evaluates BDO's performance against the Internal Audit Charter and the Internal Audit Plan. In assessing the objectivity and performance of the internal auditor, the BAC takes into account feedback from internal stakeholders, BDO's self-assessment and the results of findings from across the four lines of defence.

Whistleblowing

We want all our staff to be able to raise any concerns they might have in a safe and secure manner without any fear of recrimination. The whistleblowing policy accessible on the Bank's intranet provides guidance to staff on how to raise their concerns. Gaenor Bagley is the Bank's Whistleblowing Champion and is responsible for overseeing the integrity, independence and effectiveness of the Bank's whistleblowing procedures. In addition, the BAC reviews all reports on whistleblowing to ensure there are arrangements in place that can be used by staff in confidence, and it reports on its review to the Board.

Gaenor Bagley
Chair of the Board Audit Committee

10 April 2024

Report of the Board Nomination Committee

Committee members (attendance)

Member	Attendance (Nomination and Remuneration Committee up to September 2023)	Attendance (Board Nomination Committee only)
Gordon McCallum (iNED, Chair of the Board and Committee since November 2023)	N/A	0/1
Pippa Lambert (iNED) (Appointed 1 June 2023)	1/1	1/2
Gaenor Bagley (iNED)	3/3	2/2
Richard Goulding (iNED)	2/3	2/2
Peter Herbert (Chair of Board and iNED) (Resigned 26 September 2023)	2/3	N/A

Note: Attendance calculated based on number of meetings the member was eligible to attend.

Introduction

The newly constituted Board Nomination Committee (NomCo) was established to assist the Board in ensuring that it retains an appropriate structure, size and balance of skills to support the Bank's strategic objectives and values, and in doing so, appropriately reflects its approach with regard to equality and diversity.

The NomCo focuses on the following key areas:

- Board composition;
- executive and non-executive appointments; and
- succession planning for the Board.

Committee composition

The composition of the NomCo complies with Provision 17 of the Code and is comprised of four iNEDs, including the Chair of the Board, Gordon McCallum. Gordon chairs the NomCo but does not chair any discussions relating to the Board Chair post.

Summary of activities

Area of focus	Actions, decisions and outcomes
Non-executive appointments	• Recommended the appointment of Pippa Lambert as an iNED to the Board and Chair of the Board Remuneration Committee. • Recommended the re-appointment of Michael Woodburn as an iNED to the Board and recommended his appointment to the BRC to take effect from January 2024. • Recommended the re-appointment of Paul Cutter as an iNED to the Board. • Recommended the appointment of Neil Cunha-Gomes as a NED to the Board.
Chair of the Board	• Appointed Gordon McCallum as Chair of the Board following the resignation of Peter Herbert.
Governance	• Agreed the split of responsibilities for the separate, formally constituted NomCo, including terms of reference.
Succession planning	• Reviewed and made recommendations to the Board in relation to appointments for individuals performing SMFs.
Senior Managers Regime	• Provided oversight of the annual fitness and propriety checks of SMFs and reviewed the Bank's annual assessment of the certified functions.

Report of the Board Nomination Committee continued

Board training and induction

Induction

Newly appointed Board directors are provided with a comprehensive induction which goes beyond the boardroom and consists of reading material and face-to-face meetings with key members of staff to ensure they have access to all the information they need to perform their duties in their new role.

The aim of Zopa's director induction programme is to: provide information which covers legal and regulatory information as well as to help directors build an understanding of Zopa; its business and the markets in which it operates; to build a relationship with key Zopians; and to understand the main stakeholder relationships for Zopa. The programme considers the previous experience of the appointee and is flexibly designed to ensure both content and delivery are tailored to individual needs. All directors have the opportunity to meet with Zopians from all levels of the organisation.

Ongoing director training

At the beginning of the year, the Board reviews and approves the Board's training programme, which considers the Bank's strategy and continued professional development needs of the Board as a collective and individually. In 2023, the training programme was delivered through a variety of presentations and seminars conducted by both internal and external facilitators. It included the following topics: Consumer Duty; Environmental, Social and Governance; PoS Products; and Savings Platforms. Directors are encouraged to attend external seminars on areas of relevance to their role.

Gordon McCallum
Chair of the Board Nomination Committee

10 April 2024

Report of the Board Remuneration Committee

Committee members (attendance)

Member	Attendance (Nomination and Remuneration Committee up to September 2023)	Attendance (Remuneration Committee only)
Pippa Lambert (iNED) (Appointed 1 June 2023)	1/1	1/3
Gaenor Bagley (iNED)	3/3	3/3
Richard Goulding (iNED)	2/3	3/3
Peter Herbert (Chair of Board and iNED) (Resigned 26 September 2023)	2/3	N/A

Note: Attendance calculated based on number of meetings the member was eligible to attend.

Introduction

In 2023, the Board decided to split the combined Nomination and Remuneration Committee into two separate committees, each with its own terms of reference, with the aim of strengthening the Bank's governance structure. In addition to establishing a separate Board Remuneration Committee (RemCo), the Board also appointed Pippa Lambert as an iNED with SMF 12 responsibilities as Chair of the RemCo, for which she received regulatory approval.

The RemCo was established to assist the Board in meeting its responsibilities to determine, implement and oversee the Bank's remuneration and talent management policies and practices, both executive and non-executive, and to ensure these arrangements enabled the Bank to deliver its long-term strategy.

The RemCo focuses on the following key areas;

- culture;
- diversity, equity and inclusion;
- Remuneration Policy;
- executive and non-executive remuneration;
- workforce performance;
- executive succession planning; and
- equity option grants.

Our approach to remuneration

The Bank adheres to the requirements of the Remuneration Code as defined by the Financial Conduct Authority. The Bank's compliance with the code is supported through its Remuneration Policy which is designed to ensure that Zopa's remuneration practices are set in a way such that the Bank:

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

The RemCo is responsible for overseeing the policy and approach to remuneration and recommends its adoption to the Board. Remuneration is set in accordance with the Remuneration Policy.

Report of the Board Remuneration Committee continued

Our approach to remuneration continued

In its annual assessment of proposed salary increases, the RemCo considers how the proposal measures up against the principles set out in the Remuneration Policy, including assessing how the Bank performed against the annual performance scorecard approved by the Board and consideration of an assessment from the CRO on the appropriateness of the proposed payout.

The RemCo is responsible for determining the total remuneration package of the Bank's directors and individuals performing roles under the Senior Managers Regime. In its annual assessment of executive directors' remuneration, the RemCo considers the Bank's performance against its annual performance scorecard, the CRO's assessment of the Bank's performance against risk objectives for the year and the executive director's individual performance as assessed in the Bank's end of year performance management process.

The Remuneration Policy sets out principles for the structure of remuneration, including any variable components. In 2023, the PRA and FCA issued a joint policy statement removing the requirement for banks to apply a maximum 2:1 ratio on variable to fixed pay for material risk takers. The RemCo considered and recommended to the Board that the Bank's Remuneration Policy be amended to remove the cap in order to allow greater flexibility to attract and retain senior talent through variable remuneration. The RemCo recommended that this be replaced with a cap on the ratio of fixed to variable cash remuneration of 1:1, but that the Bank should have flexibility to make equity-based variable awards to its material risk takers (including its executive directors) in line with appropriate benchmark insights. The Board approved these changes to the Remuneration Policy with effect from the 2023 performance year.

In 2023 the RemCo oversaw an exercise undertaken by the Bank to level roles across the Bank to facilitate benchmarking across the organisation. The Committee receives regular management information on the gender pay gap and the Bank's performance against its annual target as set in the performance scorecard approved by the Board.

The RemCo reports to the Board on how the Bank has set remuneration in accordance with the principles set out in the Remuneration Policy. Certain key shareholders are represented on the Board, but as a private company with a diverse shareholder base, we do not otherwise engage with any of our shareholders on Remuneration Policy and outcomes.

The RemCo is responsible for the assessment and monitoring of the Bank's culture. In its execution of this role, it considers the results of its bi-annual employee engagement surveys where the Bank seeks feedback from its employees. The Board Remuneration Committee also has oversight of the message that is delivered to staff on the outcome of the annual performance assessment and pay review.

RemCo composition, skills and experience

The composition of the RemCo fully complies with Provision 32 of the Code. The RemCo is comprised of three iNEDs. The Chair of the Board doesn't attend RemCo meetings unless invited to do so. The CEO and Chief People Officer have standing invitations to attend the RemCo meetings. No individual is present for the part of the meeting where their remuneration is discussed by the RemCo. The Chair has the appropriate skills and experience to lead the RemCo.

Report of the Board Remuneration Committee continued

Summary of activities

Area of focus	Actions, decisions and outcomes
Culture	• In-depth review of the Zopometer survey results throughout 2023, leading to an action plan to address key areas of improvement. This resulted in high engagement scores at the end of the financial year and positive feedback from the workforce related to the areas addressed. • Reviewed and discussed cultural review of the business covering data across three metrics: direct expression of employee opinion; external assessment of workplace culture against peer companies; and indirect expression of employee opinion.
Diversity, equity and inclusion	• Discussion and approval of levelling framework initiative to be applied across the Bank to help address any differentials in equal pay and to analyse diversity more easily across roles. • Monitored evolution of the Bank's compensation philosophy to ensure it considered gender and ethnic diversity. • Reviewed the workforce ethnicity disclosure data and discussed ways to support staff in a way that naturally increased disclosures.
Remuneration Policy	• Extensively discussed and approved updates to the Remuneration Policy, including ownership of first-line responsibilities for risk approach to remuneration structure at the Bank, and the Bank's approach to the variable remuneration cap in light of the joint policy statement released by the PRA (9/23) and FCA (23/15).

Area of focus	Actions, decisions and outcomes
Executive and non-executive remuneration	• Reviewed senior manager performance and approved salary and bonus compensation. • Updated and approved fee framework for iNEDs. • Reviewed proposed annual bonus payout for employees and executives based on the 2022 scorecard performance.
Executive succession planning	• Approved the appointment of the new COO and the CTO. • Approved the new terms of reference for the RemCo to include executive succession planning which would be periodically reviewed as the Bank became more complex.
Workforce performance	• Reviewed and approved salary budget, including impact of the budget on the workforce considering macro-environment and cost-of-living challenges. The RemCo also monitored the effect of mid-year and end-of-year salary and bonus review on the gender pay gap across the Bank. • Approved deployment of cost-of-living support payment to selected staff.
Equity	• Recommended equity option grant issuance to targeted senior hires as retention incentives.

Report of the Board Remuneration Committee continued

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

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

Employee engagement is one of the Bank's key objectives, and it conducts an employee opinion survey twice a year. Team engagement scores form part of manager assessments and performance reviews. The survey results provide an 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 survey results and takes appropriate actions. This year, the Board also reviewed a cultural assessment beyond the engagement survey, and it was satisfied that the culture at Zopa remains very strong.

Pippa Lambert
Chair of the Board Remuneration Committee

10 April 2024

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 2023 (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 4 to 66. 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 15
Results for the year	16 to 21
Composition of the Board and Board committees	68 to 79
Approach to corporate governance	75 to 84
Relationship with shareholders	41
Employees and employees with disabilities	42 and 43
Relationship with suppliers	46
Charitable donations	49
Environment and greenhouse gas emissions	29 to 39
Risk management	50 to 65
Use of financial instruments	123 to 126
Post balance sheet events	179

Dividends

The directors are not recommending any dividend in respect of the year ended 31 December 2023 (2022: £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 12 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 current increased geopolitical tensions and uncertainties over economic growth.

Political donations

The Bank made no political donations in 2023 (2022: £nil).

Share capital

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

Details of the Bank's issued share capital, together with details of any movements in the Bank's issued share capital during the year, are shown in note 29 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 2023, 486,319,069 ordinary shares were in issue (2022: 421,319,069).

Directors' report continued

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.

The following director appointments and resignations have taken place in 2023 and until the date of publication of this Annual Report and Accounts:

Director	Appointed	Resigned
Peter Herbert		26.09.2023
Andrew Cassin		06.06.2023
Philippa Lambert	01.06.2023	
Neil Cunha-Gomes	19.07.2023	

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

10 April 2024

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 2023 and of its profit 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 (the "Annual Report"), which comprise: the Statement of financial position as at 31 December 2023; 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 8, 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

Materiality

- Overall materiality: £4,044,000 (2022: £1,512,000) based on 1% of net assets (2022: 5% of the average of the last three years – including 2022 – reported loss before tax).
- Performance materiality: £3,033,000 (2022: £1,134,000).

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.

Independent auditors' report

continued

to the members of Zopa Bank Limited

Report on the audit of the financial statements continued

Our audit approach continued

Key audit matters

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

The application of macro fair value hedge accounting, which was a key audit matter last year, is no longer included because it did not require the additional audit effort that was required in its first year of application. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Determination of allowance for expected credit losses on loans and advances At 31 December 2023, the gross carrying value of loans and advances to customers was £2.65bn. The associated allowance for expected credit losses ('ECL') was £174m. Determining ECL involves judgement and is subject to a high degree of estimation uncertainty. Management makes various assumptions when estimating ECL. The significant assumptions that we focused on in our audit included those with greater levels of management judgement and for which variations had the most significant impact on ECL. These included assumptions made in determining economic scenarios and their probability weightings, and judgements made in determining probabilities of default. Modelling methodologies are used to estimate ECL. These may not appropriately reflect relevant risks. Therefore, management judgemental adjustments are applied, the measurement of which is inherently judgemental and subject to estimation uncertainty. Reference to Note 15 'Loans and advances to customers' and Note 37.1 'Financial Risk Management – credit risk' in the financial statements.	We assessed the design and implementation of controls relating to the determination of the allowance for ECL. We tested the operating effectiveness of controls over: • reconciliation of ECL model output to the ledger; and • management's review and challenge in credit risk provisioning forums. We involved our economic experts in assessing the severity and probability weighting of economic scenarios. We involved our credit risk modelling specialists in assessing the appropriateness of the significant assumptions and methodologies used for certain models and certain management judgemental adjustments. We independently replicated a sample of models and certain judgemental adjustments. We evaluated the completeness and sufficiency of material management judgemental adjustments, including post-model adjustments. In addition, we performed substantive testing over: • the compliance of ECL methodologies and assumptions with the requirements of IFRS 9; • model performance monitoring, including replication of key model monitoring tests; and • a sample of critical data elements used in ECL models and to estimate management judgemental adjustments. We evaluated and tested the audited Credit Risk disclosures made in the Annual Report.

Independent auditors' report continued

to the members of Zopa Bank Limited

Report on the audit of the financial statements continued

Our audit approach continued

How we tailored the audit scope

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 the Company operates.

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.

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	£4,044,000 (2022: £1,512,000).
How we determined it	1% of Net Assets (2022: 5% of the average of the last three years – including 2022 – reported loss before tax).
Rationale for benchmark applied	The Company's net assets is considered the most appropriate benchmark as it is correlated to capital and is a key metric for the users of the financial statements. The benchmark takes into consideration balance sheet growth, the importance of capital, and increasing scale of operations. In the past, a benchmark of average losses was used. The Company was profitable for the first time in 2023 and a benchmark based on net assets provides a more stable and relevant basis for determining materiality.

Independent auditors' report continued

to the members of Zopa Bank Limited

Report on the audit of the financial statements continued

Our audit approach continued

Materiality continued

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% (2022: 75%) of overall materiality, amounting to £3,033,000 (2022: £1,134,000) 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 £202,000 (2022: £75,000) 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.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

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

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

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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

Independent auditors' report

continued

to the members of Zopa Bank Limited

Report on the audit of the financial statements continued

Reporting on other information

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

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

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

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

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2023 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.

Corporate governance statement

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code, which the Company has voluntarily adopted as if it were a premium listed company subject to the Listing Rules of the Financial Conduct Authority. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Independent auditors' report

continued

to the members of Zopa Bank Limited

Report on the audit of the financial statements continued

Corporate governance statement continued

Our review of the directors' statement regarding the longer-term viability of the Company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Company and its environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Board Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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 in appropriate 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;
- 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; 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 seven years, covering the years ended 31 December 2017 to 31 December 2023.

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

10 April 2024

Statement of comprehensive income

For the year ended 31 December

The accompanying accounting policies and notes on pages 115 to 179 are an integral part of the financial statements.

The profits/(losses) of the Company are derived from continuing operations in the current and prior periods.

	Notes	2023 £000	2022 £000
Interest income		**349,917**	200,049
Interest expense		**(136,957)**	(33,937)
Net interest income	2	**212,960**	166,112
Fee and commission income		**13,020**	8,133
Fee and commission expense		**(10,684)**	(9,040)
Net fee and commission income/(expense)	3	**2,336**	(907)
Other operating income		**1,261**	279
Net gains/(losses) on derecognition of financial assets measured at amortised cost	4	**2,984**	(21,049)
Changes in fair value of financial instruments measured at FVTPL	14	**2,889**	6,089
Total operating income		**222,430**	150,524
Operating expenses	5	**(83,266)**	(75,578)
Net operating income		**139,164**	74,946
Change in expected credit losses and other credit impairment charges	9	**(122,817)**	(100,609)
Change in provisions for other liabilities and charges	27	**(530)**	(325)
Profit/(Loss) before tax		**15,817**	(25,988)
Taxation	10	**23,064**	—
Profit/(Loss) after tax		**38,881**	(25,988)
Other comprehensive loss			
Items which will be reclassified subsequently to profit or loss:			
Movement in respect of investment securities held at FVOCI:			
– Changes in fair value	30	**(49)**	—
Total other comprehensive loss		**(49)**	—
Total comprehensive income/(loss)		**38,832**	(25,988)
Attributable to:			
Equity holders		**38,832**	(25,988)

Statement of financial position

As at 31 December

The accompanying accounting policies and notes on pages 115 to 179 are an integral part of the financial statements.

	Notes	2023 £000	2022 £000
Assets			
Cash and balances with:			
– Central bank	12	1,336,105	1,397,062
– Other banks	12	66,063	21,429
Debt securities	12	13,988	13,386
Amounts due from other Group undertakings	16	1,431	—
Derivative financial instruments	14	7,974	8,346
Loans and advances to customers	15	2,478,213	1,937,964
Investment securities held at FVOCI	17	80,710	—
Prepayments and accrued income	18	4,891	5,007
Other assets	19	13,814	28,358
Property, plant and equipment	21	1,307	788
Right-of-use assets	20	4,135	1,559
Intangible assets	22	16,055	9,435
Deferred tax assets	23	24,401	—
Total assets		4,049,087	3,423,334
Liabilities			
Derivative financial instruments	14	3,388	757
Amounts due to banks	24	159,239	180,074
Deposits by customers	25	3,357,724	2,922,845
Amounts due to other Group undertakings	16	615	106
Subordinated liabilities	26	78,817	—
Accruals		12,483	10,449
Provisions	27	2,131	1,370
Other liabilities	28	27,237	7,087
Lease liabilities	20	3,038	1,039
Total liabilities		3,644,672	3,123,727
Equity			
Called-up share capital	29	486,319	421,319
Other reserves	30	6,829	5,902
Accumulated losses		(88,733)	(127,614)
Total equity		404,415	299,607
Total equity and liabilities		4,049,087	3,423,334

The financial statements were approved by the Board of Directors on 10 April 2024 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 115 to 179 are an integral part of the financial statements.

	Notes	Called-up share capital £000	Other reserves[1] £000	Accumulated losses £000	Total equity £000
Balance as at 1 January 2022		349,319	6,180	(103,244)	252,255
Total comprehensive loss		—	—	(25,988)	(25,988)
Shares issued	29	72,000	—	—	72,000
Net share option movements	31	—	1,340	—	1,340
Transfer of capital contribution reserve	30	—	(1,618)	1,618	—
Balance as at 31 December 2022		421,319	5,902	(127,614)	299,607
Balance as at 1 January 2023		**421,319**	**5,902**	**(127,614)**	**299,607**
Profit for the year		**—**	**—**	**38,881**	**38,881**
Other comprehensive loss relating to investment securities held at FVOCI	30	**—**	**(49)**	**—**	**(49)**
Total comprehensive income		**—**	**(49)**	**38,881**	**38,832**
Shares issued	29	**65,000**	**—**	**—**	**65,000**
Net share option movements	31	**—**	**976**	**—**	**976**
Balance as at 31 December 2023		**486,319**	**6,829**	**(88,733)**	**404,415**

1. In 2023 other reserves consisted of a share-based payments reserve and FVOCI reserve. In 2022 the capital contribution reserve was transferred into accumulated losses, as explained in note 30.

Statement of cash flows

For the year ended
31 December

The accompanying accounting policies and notes on pages 115 to 179 are an integral part of the financial statements.

	Notes	2023 £000	2022 £000
Reconciliation of profit/(loss) before tax to net cash flows from operating activities:			
Profit/(Loss) before tax		**15,817**	(25,988)
Adjustments for:			
– Non-cash items	13	**66,198**	92,460
– Changes in operating assets and liabilities	13	**(133,115)**	1,082,800
– Current tax expense	10	**(1,337)**	—
Net cash (used in)/generated from operating activities		**(52,437)**	1,149,272
Cash flows from investing activities			
Purchase of investment securities		**(80,367)**	—
Purchase of property, plant and equipment	21	**(1,167)**	(610)
Purchase and development of intangible assets	22	**(10,779)**	(3,948)
Net cash used in investing activities		**(92,313)**	(4,558)
Cash flows from financing activities			
Shares issued	29	**65,000**	72,000
Proceeds from issuance of subordinated liabilities	26	**75,000**	—
Change in TFSME and ILTR borrowings	24	**(19,316)**	(3,791)
Change in non-trading amounts due to and from other Group undertakings	16	**(74)**	(16,507)
Cash payments on lease liabilities	20	**(1,745)**	(2,297)
Net cash generated from financing activities		**118,865**	49,405
Net (decrease)/increase in cash and cash equivalents		**(25,885)**	1,194,119
Cash and cash equivalents at start of year	12	**1,431,877**	237,758
Cash and cash equivalents at end of year	12	**1,405,992**	1,431,877
Profit/(Loss) before tax includes:			
Interest received		**337,443**	187,510
Interest paid		**(127,030)**	(30,085)

Notes to the financial statements

For the year ended 31 December

1. Basis of preparation and material accounting policies

Overview

This section sets out Zopa Bank Limited's (the 'Company') material 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 a subsidiary of Zopa Group Limited (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 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 12 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 current increased geopolitical tensions and uncertainties over economic growth.

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.

Notes to the financial statements
continued

For the year ended 31 December

1. Basis of preparation and significant accounting policies
continued

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

1.6 Cash flow 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, profit or 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 2023 are appropriate and that the financial statements therefore present the financial position and results of the Company fairly.

Policy	Judgement	Estimate	Further information
Expected credit loss allowance	Criteria for significant increase in credit risk. Use of post-model adjustments to address the risks not captured by the models.	ECL estimates contain a number of measurement uncertainties (such as the impact of macroeconomic scenarios and weightings on the probability of default) and disclosures include sensitivities to show impact on the application of different weightings.	Note 37
Deferred tax assets	Determination of whether sufficient taxable profits will be generated in future years to recover DTA.		Note 23

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

1.8 New accounting standards, interpretations and changes to accounting policies
The Company has not provided disclosures in respect of new and amended standards and interpretations that became effective for 2023, as none of these had a material 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.

Notes to the financial statements
continued

For the year ended 31 December

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. Interest income from non-credit-impaired financial assets is recognised by applying the effective interest rate to the gross carrying amount of the asset; for credit-impaired financial assets, the effective interest rate is applied to the net carrying amount after deducting the allowance for expected credit losses.

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 measured at amortised cost and FVOCI calculated on an effective interest rate (EIR) basis.

	Notes	2023 £000	2022 £000
Interest income			
Cash and balances with:			
– Central banks		**78,452**	11,942
– Other banks		**1,085**	53
Loans and advances to customers		**269,822**	188,054
Investment securities held at FVOCI		**558**	—
Total interest income		**349,917**	200,049
Interest expense			
Deposits by customers		**(125,645)**	(30,208)
Subordinated liabilities	26	**(3,817)**	—
Amounts due to other banks		**(7,180)**	(2,760)
Amounts due to other Group undertakings	16	**(200)**	(784)
Lease liabilities	20	**(115)**	(185)
Total interest expense		**(136,957)**	(33,937)
Net interest income		**212,960**	166,112

Notes to the financial statements
continued

For the year ended 31 December

3. Net fee and commission income/(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. Income from credit cards and supervision fees are recognised at a point in time when it has fully provided the service to the customer.

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, supervision fee earned from Zopa Embedded Finance Ltd (ZEF) 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.

	Note	2023 £000	2022 £000
Fee and commission income			
Credit cards		**8,031**	6,382
Referral commission		**469**	401
Supervision fee	16	**4,257**	—
Servicing fee		**263**	1,350
Total fee and commission income		**13,020**	8,133
Fee and commission expense		**(10,684)**	(9,040)
Net fee and commission income/(expense)		**2,336**	(907)

4. Net gains/(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.

	2023 £000	2022 £000
Gains/(losses) on sale of credit-impaired loans	**5,723**	(19,254)
Loan write-offs due to customer fraud	**(2,739)**	(1,795)
Net gains/(losses) on derecognition of financial assets measured at amortised cost	**2,984**	(21,049)

The significant amount of losses on sale of credit-impaired loans in 2022 was 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.

Notes to the financial statements continued

For the year ended 31 December

5. Operating expenses

	Notes	2023 £000	2022 £000
Wages and salaries	6	**60,211**	49,057
Contractors		**1,895**	1,325
Less: capitalised development costs recognised as intangible additions	22	**(10,203)**	(3,666)
Legal and professional		**7,212**	6,638
Depreciation of PPE and right-of-use assets	20, 21	**2,532**	2,818
Amortisation of intangible assets	22	**3,996**	3,865
Impairment of PPE, intangible assets and right-of-use assets		**163**	25
Information technology		**9,777**	7,920
Intragroup recharges	16	**443**	378
Loss on acquisition of loan portfolio	36	**—**	651
Other		**7,240**	6,567
Total operating expenses		**83,266**	75,578

The capitalised development costs recognised as intangible additions reduces the wages and salaries, and contractor costs, as these costs are capitalised as part of the intangible assets.

6. Wages and salaries

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

Bonus costs are recognised when the 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 31.

	Note	2023 £000	2022 £000
Employee benefits		**51,149**	41,041
Social security costs		**6,169**	5,139
Defined contribution pension expenses		**1,917**	1,537
Equity-settled share-based payments	31	**976**	1,340
Total wages and salaries		**60,211**	49,057

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

	2023 Number	2022 Number
Loan operations and servicing	**359**	336
Administration	**333**	264
Total staff	**692**	600

Notes to the financial statements
continued

For the year ended 31 December

7. Directors' remuneration

This table sets out emoluments and pension contributions in respect of 2023.

	2023 £000	2022 £000
Directors' emoluments	**2,648**	2,074
Pension contributions	**10**	9
Total directors' remuneration	**2,658**	2,083

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

	2023 £000	2022 £000
Emoluments	**1,245**	943
Pension contributions	**10**	9
Total highest paid director remuneration	**1,255**	952

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 31. There have been no share-based options exercised by directors in 2023.

8. Independent auditors' fees

	2023 £000	2022 £000
Fees payable for the statutory audit of the Company's financial statements	**1,156**	780
Fees payable for subscription services	**1**	1
Total fees payable to auditors	**1,157**	781

Auditors' remuneration to PricewaterhouseCoopers LLP for 2023 in relation to the statutory audit includes £111k (2022: £113k) which pertains to additional fees for 2022 that were paid during the current year.

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.

Notes to the financial statements continued

For the year ended 31 December

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

Accounting policy

The accounting policies on expected credit losses are included in note 37. 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	2023 £000	2022 £000
ECL movements and write-offs on loans and advances to customers	37	123,066	100,677
Recoveries of loans and advances, net of collection costs		(1,082)	(217)
Increase in ECL on off-balance sheet exposures	27	833	149
Change in expected credit losses and other credit impairment charges		122,817	100,609

The impairment charge includes £317k (2022: £164k) in respect of residual value impairment within the Company's car finance loan business.

10. Taxation

Accounting policy

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the 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.

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

10. Taxation
continued

In the 2020 Budget, 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.

No corporation tax liabilities are payable to HMRC for the year (2022: £nil).

The Bank has recognised a deferred tax asset in respect of tax losses carried forward for the first time this year. Further detail on the deferred tax is provided in note 23.

10.1 Tax credit

	2023 £000	2022 £000
Current tax expense		
– Current tax on profits for the year	1,337	—
Deferred tax credit		
– Current year	(24,401)	—
Total tax credit	(23,064)	—

10.2 Reconciliation of effective tax rate

The expected tax charge for the year ended 31 December 2023 is calculated based on blended rates of 23.5% for the standard rate of Corporation Tax in the UK (2022: 19%). A reconciliation from the credit implied by the standard rate to the actual tax credit is as follows:

	2023 £000	2022 £000
Profit/(Loss) before tax	15,817	(25,988)
Tax charge based on the applicable UK Corporation Tax rate of 23.5% (2022: 19.00%)	3,720	(4,938)
Tax effect of:		
Non-deductible expenses for tax purposes	235	385
Group relief (claimed)/surrendered	(281)	—
Losses for which no deferred tax asset is recognised	—	4,556
Deferred tax recognised	(26,732)	—
Other differences	(6)	(3)
Total tax credit	(23,064)	—

Notes to the financial statements
continued

For the year ended 31 December

11. 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 only exception to this are financial assets or liabilities measured at fair value through profit or loss (FVTPL), where transaction costs are recognised directly in the income statement as they are incurred. Purchases and sales of financial assets are recognised on trade date.

Derecognition of financial instruments

Financial assets are derecognised when, and only when:

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

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

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

Classification of financial assets

There are three principal classification categories for financial assets:

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

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

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

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

Notes to the financial statements continued

For the year ended 31 December

11. Financial instruments continued

Accounting policy continued

Classification of financial assets continued

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 37.

Financial assets held at FVOCI are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the investment security is derecognised. Interest is calculated using the effective interest method. Investment securities held at FVOCI consist entirely of debt instruments.

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. Financial liabilities measured at amortised cost mainly comprise deposits from customers and subordinated liabilities.

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

11. Financial instruments
continued

As at 31 December 2023 and 31 December 2022, no financial instruments have been offset in the statement of financial position.

Loan purchase

In March 2023, Zopa Bank Limited acquired loan portfolio consisting of unsecured personal loans which are classified as performing loans at initial recognition.

In December 2021 and January 2022, the Company acquired a loan portfolio that included purchased or originated credit-impaired (POCI) loans on initial recognition. Further details are in note 36. 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 37.

Financial assets pledged as collateral

The Company has pledged £296,503k (2022: £375,781k) of loans and advances to customers as encumbered collateral which can be called upon in the event of default of the TFSME drawdowns. The amount pledged in 2022 includes collateral on ILTR drawdowns. Further details on these Bank of England funding schemes can be found in note 24.

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

2023	FVTPL £000	FVOCI £000	Amortised cost £000	Total £000
Cash and balances with:				
– Central bank	—	—	1,336,105	1,336,105
– Other banks	—	—	66,063	66,063
Debt securities	13,988	—	—	13,988
Amounts due from other Group undertakings	—	—	1,431	1,431
Derivative financial instruments	7,974	—	—	7,974
Loans and advances to customers	—	—	2,478,213	2,478,213
Investment securities held at FVOCI	—	80,710	—	80,710
Other assets	—	—	13,386	13,386
Total financial assets	**21,962**	**80,710**	**3,895,198**	**3,997,870**
Derivative financial instruments	3,388	—	—	3,388
Deposits by customers	—	—	3,357,724	3,357,724
Amounts due to other banks	—	—	159,239	159,239
Amounts due to other Group undertakings	—	—	615	615
Subordinated liabilities	—	—	78,817	78,817
Other liabilities	—	—	25,375	25,375
Total financial liabilities	**3,388**	**—**	**3,621,770**	**3,625,158**

Notes to the financial statements
continued

For the year ended 31 December

11. Financial instruments
continued

2022	FVTPL £000	FVOCI £000	Amortised cost £000	Total £000
Cash and balances with:				
– Central bank	—	—	1,397,062	1,397,062
– 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

There were no reclassifications of financial assets or liabilities during the year ended 31 December 2023 or 31 December 2022.

Notes to the financial statements
continued

For the year ended 31 December

12. Cash and balances with central bank and other banks

Accounting policy

Cash and balances with central bank and other banks 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 equivalent if they have short maturity of three months or less from the date of acquisition and are in substance cash equivalents.

	2023 £000	2022 £000
Cash and balances with central bank	**1,336,105**	1,397,062
Cash and balances with other banks	**66,063**	21,429
Government money market fund	**13,988**	13,386
Cash and balances with central banks and other banks	**1,416,156**	1,431,877
Less: Cash Ratio Deposit	**(10,164)**	(5,173)
Total cash and cash equivalents	**1,405,992**	1,426,704

The Cash Ratio Deposit (CRD) is held with the BoE in compliance with regulatory mandates. As this deposit is not held in a demand account and is not available to finance the Company's day-to-day operations, it is excluded from Cash and cash equivalents in 2023. In 2022, the CRD balance was included in the cash and cash equivalents. The 2022 Statement of Cash Flows was not restated as the impact was not material.

All cash and cash equivalents were Stage 1 assets under IFRS 9 as at 31 December 2023 and 31 December 2022. There was no expected credit loss allowance in respect of cash and cash equivalents as at 31 December 2023 (31 December 2022: £nil).

Notes to the financial statements
continued

For the year ended 31 December

13. Cash flow information

13.1 Cash (used in)/generated from operating activities

	Notes	2023 £000	2022 £000
Adjustments for non-cash items:			
– Change in expected credit losses and other credit impairment charges	9	**122,817**	100,609
– ECL on disposal of assets outside of credit risk appetite	37.1.13	**(64,867)**	(10,291)
– Change in provisions	27	**530**	(2)
– Depreciation, amortisation and impairment	5	**6,691**	6,708
– Share based payment charge	31	**976**	1,340
– Interest on leases	20	**115**	185
– Interest on subordinated liabilities		**3,816**	—
– Interest on investment securities		**(569)**	—
– Changes to fair value adjustment of hedged risk		**(4,357)**	1,804
– Changes in fair value of financial instruments measured through profit and loss		**1,468**	(7,893)
– Other non-cash items		**(422)**	—
Total adjustments for non-cash items		**66,198**	92,460
Changes in operating assets and liabilities:			
– Loans and advances to customers		**(593,842)**	(855,269)
– Deposits by customers	25	**434,879**	1,954,845
– Financial instruments at fair value through profit or loss		**1,535**	(1,489)
– Amounts due to other banks	24	**(11,683)**	8,672
– Intercompany trading balances	16	**(848)**	1,421
– Prepayments and accrued income	18	**116**	(2,518)
– Accruals		**2,034**	1,562
– Other assets	19	**14,544**	(26,398)
– Other liabilities	28	**20,150**	1,974
Total changes in operating assets and liabilities		**(133,115)**	1,082,800

Notes to the financial statements
continued

For the year ended 31 December

13. 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.

13.2 Net debt reconciliation

	Liabilities from financing activities			Other assets		
	Borrowings £000	Leases[1] £000	Sub-total £000	Cash £000	Liquid investments £000	Total £000
Net debt as at 1 January 2022	(1,160,193)	(3,151)	(1,163,344)	237,758	1,174,821	249,235
Cash flow items						
Financing cash flows	(1,930,207)	2,297	(1,927,910)	1,036,694	750,604	(140,612)
Interest payments/(receipts)	30,085	—	30,085	157,425	(187,510)	—
Non-cash flow items						
Interest (expense)/income	(33,937)	—	(33,937)	—	200,049	166,112
Accretion of interest	—	(185)	(185)	—	—	(185)
Net debt as at 31 December 2022	**(3,094,252)**	**(1,039)**	**(3,095,291)**	**1,431,877**	**1,937,964**	**274,550**
Cash flow items						
Financing cash flows	**(492,216)**	**1,745**	**(490,471)**	**(234,309)**	**609,916**	**(116,853)**
Interest payments/(receipts)	**127,030**	**—**	**127,030**	**208,424**	**(337,443)**	**—**
Non-cash flow items						
Interest (expense)/income	**(136,957)**	**—**	**(136,957)**	**—**	**349,917**	**212,960**
Accretion of interest	**—**	**(115)**	**(115)**	**—**	**—**	**(115)**
New lease	**—**	**(3,629)**	**(3,629)**	**—**	**—**	**(3,629)**
Net debt as at 31 December 2023	**(3,596,395)**	**(3,038)**	**(3,599,433)**	**1,405,992**	**2,560,354**	**366,913**

1. The allocation of financing cash flows and interest payments for Leases in 2022 has been restated to reflect the presentation in accordance with the Company's accounting policies.

Notes to the financial statements
continued

For the year ended 31 December

14. 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 referred 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:

	2023			2022		
	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	**525,000**	**7,963**	**3,372**	235,000	8,226	757
Derivatives in economic and not accounting hedge						
Interest rate swaps	**25,000**	**11**	**—**	80,000	80	—
Foreign currency forwards	**461**	**—**	**16**	3,141	40	—
Total derivatives	**550,461**	**7,974**	**3,388**	318,141	8,346	757

Notes to the financial statements
continued

For the year ended 31 December

14. 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 and, as such, were excluded in the December re-designation. These swaps were subsequently included in the accounting hedge relationships in the subsequent month's re-designation.

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

	2023 £000	2022 £000
Net (loss)/gain on derivatives designated as portfolio fair value hedges	(7,316)	1,026
Fair value adjustments from hedge accounting	4,357	(1,804)
Ineffectiveness of fair value hedges	(2,959)	(778)
Movements on the other financial instruments measured at FVTPL	5,848	6,867
Changes in fair value of financial assets measured at FVTPL	2,889	6,089

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.

In 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 that 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 Company determines 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. At the end of every month, we de-designate the hedge relationships and redesignate them as new hedges in order to minimise the ineffectiveness from early repayments and accommodate new exposures. At de-designation, the fair value hedge accounting adjustments are amortised on a straight-line basis over the remaining period until the repricing of the loan. Amortisation begins at the date of de-designation.

Possible sources of ineffectiveness are as follows:

- differences between the expected and actual volume of prepayments, as the 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.

Notes to the financial statements
continued

For the year ended 31 December

14. Derivative and hedging activities
continued

Fair value macro hedge continued

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

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

2023	**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	**270,000**	**7,963**	**Derivative financial assets**	
Interest rate swaps	**255,000**	**(3,372)**	**Derivative financial liabilities**	**(7,316)**
	525,000	**4,591**		**(7,316)**

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:

2023	**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	**2,035,830**	**2,296**	**Loans and advances to customers**	**4,357**

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 37.3.2.

Notes to the financial statements
continued

For the year ended 31 December

15. 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.

Unsecured personal loans also include point-of-sale loans that were originated via the platform owned and run by Zopa Embedded Finance Ltd (note 16).

HP and PCP leases have fixed payments and are held to maturity. The expected credit loss allowance on car finance loans includes £481k (2022: £164k) relating to provisions against residual values of vehicles subject to personal contract purchase loans. These provisions are included within the impairment charge and in the calculation of coverage ratios.

	Note	2023 £000	2022 £000
Gross unsecured lending		2,214,418	1,786,045
Less: allowance for expected credit losses		(161,136)	(131,601)
Total unsecured lending		2,053,282	1,654,444
Gross finance lease receivables		480,548	330,422
Less: unearned finance income		(44,685)	(35,614)
Net investment in finance leases		435,863	294,808
Less: allowance for expected credit losses		(13,228)	(9,484)
Total finance lease receivables		422,635	285,324
Fair value adjustment for hedged risk	14	2,296	(1,804)
Total loans and advances to customers		2,478,213	1,937,964

Gross finance lease loans are receivable as follows:

	2023 £000	2022 £000
Less than one year	140,756	89,328
One to two years	133,280	85,312
Two to three years	115,045	76,338
Three to four years	70,500	57,779
Four to five years	20,967	21,665
Total gross finance lease receivables	480,548	330,422

Note that this table differs to the maturity table in note 37. This is due to the above table representing the undiscounted contractual repayments of car finance loans, while the table in note 37 represents the maturity profile of the net investment in finance leases.

Notes to the financial statements
continued

For the year ended 31 December

16. Amounts due to and from other Group undertakings

Intercompany balances are repayable on demand.

Zopa Embedded Finance Ltd (henceforth 'ZEF') was incorporated in January 2023. ZEF is a wholly-owned subsidiary of Zopa Group Limited. In April 2023, ZEF completed the acquisition of assets from Rematch Credit Limited, a prominent point-of-sale lender in the UK. This acquisition has allowed Zopa Group to enter the point-of-sale and embedded finance market. The Company utilises ZEF's platform in originating the PoS loans. In return, the Company pays platform fees and servicing fees (presented as part of the effective interest of the loan) and earns supervision fees (note 3) from ZEF.

2023	Income £000	Expenditure £000	Amounts due from Group undertakings £000	Amounts due to Group undertakings £000
Zopa Group Limited – trading balances	415	443	18	16
Zopa Group Limited – intercompany loan	—	200	—	—
Zopa Embedded Finance – trading balances	4,257	1,819	1,413	599
Total	**4,672**	**2,462**	**1,431**	**615**

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

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

17. Investment securities held at FVOCI

Investment securities held by the Bank can fall into one of the following three categories: amortised cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL). At the balance sheet date, all investment securities were non-complex, characterised by cash flows that consist solely of payments of principal and interest. The Company holds securities that are held to collect cash flows, and to sell if the need arises (for example to manage and meet day-to-day liquidity needs). Consequently, the Bank classified all its securities as FVOCI as at 31 December 2023. The Bank does not categorise any investment securities at amortised cost or at fair value through profit and loss.

Refer to note 11 for the accounting policy.

	2023 £000	2022 £000
Covered bonds issued by banks	52,424	—
Covered bonds issued by building societies	28,286	—
Total investment securities held at FVOCI	**80,710**	—

All of the entity's debt securities FVOCI are considered to have low credit risk, and the loss allowance recognised is therefore limited to 12 months' expected losses. Management considers 'low credit risk' for covered bonds to be an investment grade credit rating with at least one major rating agency. There was no expected credit loss allowance in respect of investment securities as at 31 December 2023.

Notes to the financial statements
continued

For the year ended 31 December

18. Prepayments and accrued income

	2023 £000	2022 £000
Prepayments	4,767	4,883
Accrued income	124	124
Total prepayments and accrued income	**4,891**	5,007
Current portion	4,788	4,872
Non-current portion	103	135

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. Other receivables amounting to £5,682k (2022: £nil) relates to amounts owed to the Company from buyers of the credit card portfolio that was sold in December 2023, which was settled subsequently in January 2024.

	2023 £000	2022 £000
Customer receivables	4,913	25,797
Trade debtors	563	581
Other receivables	5,682	—
Others	2,656	1,980
Total other assets	**13,814**	28,358
Current portion	13,814	28,358

Notes to the financial statements
continued

For the year ended 31 December

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 15%. 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
continued

For the year ended 31 December

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

In November 2023, the Company entered into a new lease agreement following the expiration of the prior lease, which commenced in September 2021.

20.1 Right-of-use assets

	2023 £000	2022 £000
Balance as at 1 January	1,559	3,526
Additions	4,460	—
Depreciation charge for the year	(1,884)	(1,967)
Balance as at 31 December	4,135	1,559

20.2 Lease liabilities

	2023 £000	2022 £000
Balance as at 1 January	1,039	3,151
Additions	3,629	—
Interest charged during the year	115	185
Payments during the year	(1,745)	(2,297)
Balance as at 31 December	3,038	1,039
– of which is current	1,406	1,039
– of which is non-current	1,632	—

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

	2023 £000	2022 £000
Less than one year	1,764	1,039
One to two years	1,820	—
Total undiscounted lease liabilities	3,584	1,039

20.3 Amounts recognised in the income statement

	Notes	2023 £000	2022 £000
Interest expense	2		
Interest on lease liabilities		(115)	(185)
Operating expenses	5		
Depreciation of right-of-use assets		(1,884)	(1,967)
Release of dilapidation provision		640	—
Total amounts recognised in the income statement		(1,359)	(2,152)

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.

The Company depreciates 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.

2023	Office equipment £000	Fixtures and fittings £000	Total £000
Cost			
Balance as at 1 January	**4,045**	**—**	**4,045**
Additions	**1,085**	**82**	**1,167**
Balance as at 31 December	**5,130**	**82**	**5,212**
Accumulated depreciation			
Balance as at 1 January	**3,257**	**—**	**3,257**
Depreciation charge for the year	**648**	**—**	**648**
Balance as at 31 December	**3,905**	**—**	**3,905**
Net book value	**1,225**	**82**	**1,307**

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

The cost of property, plant and equipment which has been fully depreciated and is still in use is £2,958k (2022: £2,673k).

Notes to the financial statements
continued

For the year ended 31 December

22. Intangible assets

Accounting policy and commentary

Banking licence

The banking licence consists of both employee costs and also other costs that were 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.

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.

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 economic benefit-generating use. The useful life of the purchased software and internally generated intangible assets is considered to be three years. The residual value of intangible assets is assumed to be zero. Purchased brand is not amortised but assessed for impairment. 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.

Notes to the financial statements
continued

For the year ended 31 December

22. Intangible assets
continued

2023	Purchased brand £000	Purchased software £000	Internally generated £000	Banking licence £000	Total £000
Cost					
Balance as at 1 January	3,331	447	16,689	1,973	22,440
Additions	—	576	10,203	—	10,779
Disposal/write-offs	—	—	(475)	—	(475)
Balance as at 31 December	3,331	1,023	26,417	1,973	32,744
Accumulated amortisation					
Balance as at 1 January	3,331	135	9,539	—	13,005
Amortisation charge for the year	—	154	3,842	—	3,996
Disposals/write offs	—	—	(312)	—	(312)
Balance as at 31 December	3,331	289	13,069	—	16,689
Net book value	—	734	13,348	1,973	16,055

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

Notes to the financial statements
continued

For the year ended 31 December

23. Deferred tax

Critical accounting judgement and commentary

At 31 December 2023, the Company recognised a deferred tax asset because there is persuasive evidence that sufficient taxable profits will be generated in the future to utilise brought forward tax losses.

Under IFRS, a deferred tax asset is recognised for deductible temporary differences and unused tax losses carried forward, to the extent that it is probable that future taxable profits will be available.

The Company has performed an analysis of the recoverability of deferred tax assets. In doing so, the Company has considered the following:

- the availability of sufficient taxable temporary differences; and
- the probability that the Company will have sufficient taxable profits in the foreseeable future, in the same period as the reversal of the deductible temporary difference or in the periods into which a tax loss can be carried back or forward.

The recoverability of the deferred tax asset is contingent upon the level of supportable future taxable profits, which are derived from the Company's five-year financial plan. In assessing the probability of recovery, the Directors have reviewed the Company's five-year forecast that has been used for both the going concern and viability assessment.

This plan reflects management's current expectations regarding competitiveness and profitability, and is based on Board-approved business plans. The accuracy of the forecast is inherently tied to the underlying assumptions, encompassing macroeconomic factors including interest rates, future tax rates, and potential climate-related risks. Moreover, it is contingent on the Company's successful execution of its strategic plans. As a result, the utilisation of the deferred tax asset may demonstrate notable fluctuations.

According to existing regulations, brought forward tax losses remain indefinitely available for future use. Considering the projected profitability, there is a high likelihood of recovering the losses in the future.

The Company has recognised a deferred tax asset in relation to all the tax losses carried forward in the prior years. The Company expects that the deferred tax asset value will be fully utilised by the end of 2026, subject to performance in line with the financial plan which includes further successful capital raises. Under various scenarios applied using the five-year forecast, the Company would still be able to fully utilise the deferred tax asset value within the next five years.

The table below shows the movement in net deferred tax assets:

	2023 £000	2022 £000
At 1 January	**—**	—
Credited/(Charged)		
– to profit or loss	**24,401**	—
At 31 December	**24,401**	—

No deferred taxes are recognised on FVOCI investments as the impact is immaterial.

Notes to the financial statements
continued

For the year ended 31 December

23. Deferred tax
continued

The table below shows the breakdown of the deferred tax assets:

	2023 £000	2022 £000
Fixed-asset timing differences	1,001	—
Intangible assets timing differences	(797)	—
Tax losses carried forward	24,197	—
Total deferred tax assets	**24,401**	—

In 2023, the Company has recognised a deferred tax asset in respect of the tax losses carried forward totalling £96,786k and timing differences on fixed assets amounting to £4,002k. It was reduced by the deferred tax liability on temporary differences on intangible assets amounting to £3,186k.

In 2022, deferred tax assets have not been recognised in respect of temporary differences on property, plant and equipment amounting to £3,310k and tax losses carried forward totalling £107,668k.

24. Amounts 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 were drawdowns under the Bank of England's Indexed Long-Term Repo (ILTR) scheme in the prior years which were fully repaid in 2023.

	2023 £000	2022 £000
Amounts drawn down under TFSME	151,985	151,067
Amounts drawn down under ILTR	—	20,234
Amounts due to other banks	7,254	8,773
Total amounts due to banks	**159,239**	180,074

25. Deposits by customers

	2023 £000	2022 £000
Demand deposits	1,526,702	822,433
Term deposits	1,831,022	2,100,412
Total deposits by customers	**3,357,724**	2,922,845

Notes to the financial statements
continued

For the year ended 31 December

26. Subordinated liabilities

	2023 £000	2022 £000
Fixed-rate reset subordinated tier 2 notes due 2033	75,000	—
Accrued interest	3,817	—
Total subordinated liabilities	**78,817**	—

The Company has £75m of fixed-rate reset subordinated tier 2 notes in issuance (25 August 2023: £75m), issued to Zopa Group Limited. The notes pay interest on the principal amount at an aggregate rate of 14.4% per annum, payable in equal instalments quarterly in arrears until 25 November 2028, at which time the interest rate will reset. The Bank has a call option to redeem (a) all of these notes during the period from 25 August 2028 to 25 November 2028, and (b) at any time after 25 November 2028 where the outstanding nominal amount of the Notes is 25% or less of the aggregate nominal amount of the Notes originally issued. Exercise of any call option is subject to regulatory approval.

27. 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.

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. 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 37.

2023	Dilapidations £000	FCA levy £000	Off-balance sheet ECL £000	Total £000
Balance as at 1 January	640	—	730	1,370
Additions	568	1,170	1,563	3,301
Utilised in the year	—	(1,170)	—	(1,170)
Released in the year	(640)	—	(730)	(1,370)
Balance as at 31 December	**568**	**—**	**1,563**	**2,131**

Notes to the financial statements
continued

For the year ended 31 December

27. Provisions
continued

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

Movements in off-balance sheet ECL provisions are included within changes in expected credit losses and other credit impairment charges in the income statement. The change in provisions for other liabilities and charges of £530k as shown in the income statement, is the net of FCA levy addition of £1,170k and dilapidations release of £640k. The dilapidations addition of £568k is included within the right-of-use assets and lease liabilities.

28. Other liabilities

	2023 £000	2022 £000
Other taxation and social security	**1,842**	1,622
Trade creditors	**12,346**	1,026
Customer payables	**9,664**	4,248
Other creditors	**3,385**	191
Total other liabilities	**27,237**	7,087
Current portion	**27,237**	7,087

The significant increase in Trade Creditors and the end of 2023 is due to balances owed to merchants following the launch of the PoS offering.

Notes to the financial statements
continued

For the year ended 31 December

29. Called-up share capital

	2023 £000	2022 £000	2023 Number of shares	2022 Number of shares
Called-up ordinary share capital, issued and fully paid				
Ordinary shares of £1 each	**486,319**	421,319	**486,319,069**	421,319,069
Total called-up share capital	**486,319**	421,319	**486,319,069**	421,319,069

During the year, 65,000,000 (2022: 72,000,000) £1 shares were issued and paid for by Zopa Group Limited, the Company's parent.

30. 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 accumulated losses.

The accounting policies on the share schemes and investment securities at FVOCI are included in notes 31 and 17, respectively.

	FVOCI reserve £000	Share schemes £000	Capital contribution £000	Total £000
Balance as at 1 January 2023	**—**	**5,902**	**—**	**5,902**
Fair value movement	**(49)**	**—**	**—**	**(49)**
Share options movement	**—**	**976**	**—**	**976**
Balance as at 31 December 2023	**(49)**	**6,878**	**—**	**6,829**
Balance as at 1 January 2022	—	4,562	1,618	6,180
Share options movement	—	1,340	—	1,340
Transfer to accumulated losses	—	—	(1,618)	(1,618)
Balance as at 31 December 2022	—	5,902	—	5,902

Notes to the financial statements
continued

For the year ended 31 December

31. 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 the Zopa Group Limited Joint Share Ownership 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.

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.

2023	NTA options Number	JSOP Number	MIP Number	Total Number	Weighted average exercise price £
Balance at 1 January	1,759,081	4,995,530	6,893,259	13,647,870	3.9696
Granted	94,000	—	—	94,000	6.4043
Exercised	(37,183)	—	—	(37,183)	0.4367
Lapsed	(217,321)	(307,231)	(67,500)	(592,052)	4.6954
Balance at 31 December	1,598,577	4,688,299	6,825,759	13,112,635	3.9615
Range of exercise prices (£)	0.01-7.00	2.80-7.00	3.50-7.00	0.01-7.00	—
Weighted average remaining contractual life (years)	5.88	6.16	6.61	6.36	—
Exercisable awards at 31 December	1,167,721	3,649,128	5,019,938	9,836,787	3.9891

Notes to the financial statements
continued

For the year ended 31 December

31. Share schemes
continued

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

For options granted during the year, the weighted average fair value of the options at the measurement date was £1.022.

For share options exercised during the year, the weighted average share price at the date of exercise was £3.47 (2022: £5.0728).

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

	2023 £000	2022 £000
Expected volatility	**47-49%**	47-49%
Expected life (years)	**5**	5
Weighted average share price	**£3.4700**	£3.2759
Exercise price	**£6.00-£7.00**	£0.01-£7.00
Expected dividends	**None**	None
Risk-free rate	**3.2-4.2%**	1.0-3.6%

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

The share-based payment charge in the year was £976k (2022: £1,340k).

Notes to the financial statements
continued

For the year ended 31 December

32. Related parties

Key management personnel

IAS 24 'Related Party Disclosures' requires additional information for key management compensation. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The directors are considered to be the key management personnel for disclosure purposes. Directors' remuneration is disclosed within note 7. The share-based compensation expense recognised during the year attributable to directors amounted to £390k (2022: £370k). In total, the key management personnel compensation amounted to £2,658k in 2023 (2022: £2,083k). One executive director exercised 100,000 options during 2022. There were no share-based options exercised by directors in 2023.

Transactions and outstanding balances relating to other Group companies have been disclosed within note 16.

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, 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 as a direct result of the sale. This is disclosed in the below table.

2023	Income £000	Expenditure £000	Amounts due from related parties £000	Amounts due to related parties £000
Credit card balances outstanding from key management personnel	—	—	1	—
Fee and commission income – Click Loans Limited	173	—	—	—
Loan servicing fee income – Plata Finance Limited	253	—	—	—
Amount receivable from related party customer – Click Loans Limited	—	—	175	—
Amount receivable from Plata Finance Limited	—	—	425	—

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 Plata Finance Limited	—	—	651	—

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

Notes to the financial statements
continued

For the year ended 31 December

33. Ultimate controlling party

Zopa Group Limited (UK Company number 10624955) held 100% of the issued capital of Zopa Bank Limited as at 31 December 2023 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 was the ultimate parent and controlling party as at 31 December 2022 and 2023.

34. 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 37). When these commitments are drawn down or called upon, and meet the recognition criteria as detailed in note 15, 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'.

	2023 £000	2022 £000
Loans and advances to customers commitments		
– Undrawn credit card commitments	**173,901**	96,172
Finance lease commitments		
– Finance lease agreements to lend in the future	**3,028**	2,017
Purchase commitments:		
Under one year	**4,246**	4,844
Between one and five years	**7,753**	6,507
Over five years	**—**	—
Total contingent liabilities and commitments	**188,928**	109,540

Notes to the financial statements
continued

For the year ended 31 December

35. 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 a whole.

Notes to the financial statements
continued

For the year ended 31 December

35. Fair value of financial instruments
continued

2023	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	1,336,105	1,336,105	—	—	1,336,105
– Other banks	66,063	66,063	—	—	66,063
– Debt securities	13,988	13,988	—	—	13,988
Amounts due from other Group undertakings	1,431	—	—	1,431	1,431
Investment securities held at FVOCI	80,710	80,710	—	—	80,710
Derivative financial instruments	7,974	—	7,974	—	7,974
Loans and advances to customers	2,478,213	—	2,296	2,561,848	2,564,144
Other assets	13,386	—	—	13,386	13,386
Total financial assets	3,997,870	1,496,866	10,270	2,576,665	4,083,801
Derivative financial instruments	3,388	—	3,388	—	3,388
Deposits by customers	3,357,724	—	3,357,391	—	3,357,391
Subordinated liabilities	78,817	—	78,371	—	78,371
Amounts due to other banks	159,239	159,239	—	—	159,239
Amounts due to other Group undertakings	615	—	—	615	615
Other liabilities	25,375	—	—	25,375	25,375
Total financial liabilities	3,625,158	159,239	3,439,150	25,990	3,624,379

Notes to the financial statements
continued

For the year ended 31 December

35. Fair value of financial instruments
continued

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:					
– 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	2,911,763	5,474	3,097,311

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;
- **investment securities** – The fair value of investment securities is based on either observed market prices for those securities that have an active trading market (fair value Level 1 assets), or using observable inputs (in the case of fair value Level 2 assets);
- **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 amount disclosed as Level 2 in the table refers to the fair value adjustment for hedged risk (note 14) which was calculated using observable inputs;

Notes to the financial statements continued

For the year ended 31 December

35. Fair value of financial instruments continued

- **credit cards loans and advances to customers** have no contractual maturity and **intercompany balances** are repayable on demand. Therefore, their carrying value is not considered to be materially different from their fair value;
- **deposits by customers** – For fixed-rate deposit products, the Company has forecast cash flows for the portfolio until their contractual maturity. The fair value of the deposits has been 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;
- **subordinated liabilities** – As quoted market prices are not available, a discounted cash flow model is used based on a current market-related yield curve appropriate for the remaining term to maturity;
- **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; and
- **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.

36. Loan portfolio acquisition

In March 2023, Zopa Bank Limited acquired a loan portfolio consisting of 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 total portfolio was £38m which is deemed to be its fair value at acquisition. These loans are classified as performing loans at initial recognition.

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. No market observable inputs existed across the portfolio, and as such, they have been measured using a discounted cash flow model. 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%. As at 31 December 2023, the total carrying amount of the acquired loans in December 2021 and January 2022 is £61.8m (2022: £166.2m). No sensitivity analysis is shown as the balance is no longer material. The £0.7m loss on acquisition in 2022 is included in operating expenses in note 5.

Notes to the financial statements
continued

For the year ended 31 December

37. Financial risk management

37.1 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.

37.1.1 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 37.1.3 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 Sub-committee. The RMC also reviews and challenges the base case economic scenario and outer macroeconomic scenarios, and scenario weightings;
- **Credit and Model Risk Sub-committee (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; and
- **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.

Notes to the financial statements
continued

For the year ended 31 December

37. Financial risk management
continued

37.1 Credit risk continued

37.1.2 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. The Company measures ECL by assessing probability of default (PD), exposure at default (EAD) and loss given default (LGD). ECL is the product of these three components discounted to present value using an account-level effective interest rate as the discount rate.

Factor	Description
Probability of default (PD)	The Company 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 estimate PD based on the latest payment behaviour of the customer on the Zopa product, information from the credit reference agencies (CRAs) and product-specific characteristics. The PD model also includes an estimate of the future macroeconomic effect.
Exposure at default (EAD)	The Company developed an EAD model for the credit cards product to assess the likely exposure at default. The model estimates EAD incorporating 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 is estimated based on the outstanding balance of the account at observation and the contractual paydown schedule of the account, taking into account any missed payments before default.
Loss given default (LGD)	The Company 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 proceeds benefit of debt sales. Adjustments to these estimates are made depending on the macroeconomic scenario.
Discount rate	The Company uses account-level effective interest rate which is calculated based on loan amount, interest and fees, expected repayments, including prepayments, and term.

Forecast period

The Company estimates 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.

Climate risk

The Company conducted a credit risk assessment regarding the potential impact of climate change on physical risks. Refer to the strategic report (Climate-related financial disclosures) section for further information. The analysis did not lead to the identification of a separate impairment charge for the 2023 reporting period.

Notes to the financial statements continued

For the year ended 31 December

37. Financial risk management continued

37.1 Credit risk continued

37.1.2 Measurement of ECL continued

Forward-looking information

The Company uses forecasts on key macroeconomic indicators to estimate the macroeconomic effect on PD and LGD. The key indicators that are used are unemployment rate and debt service ratio. The model used to estimate the macroeconomic effect has been developed on historical data spanning over 16 years obtained from credit reference agencies (CRAs).

The Company uses four different macroeconomic scenarios to estimate the future macroeconomic effect, named Scenarios 1 to 4. Scenario 1 is a Mild 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.

37.1.3 Management judgements in measurement of ECL

As of 31 December 2023, the Bank holds a post-model adjustment to reflect management's judgement of macro-environment's impact on ECL over and above the impact resulting from the modelled output. This increases the ECL by £2.4m (1.38%) and is reflected in the results by scenario as shown in the sensitivity analysis table (note 37.1.8).

As at 31 December 2022, the key management judgement related to the potential impact of the rising mortgage rates on Zopa's existing borrowers. Due to the increase in their monthly mortgage payments, these borrowers might struggle to continue to make full repayments of Zopa's loans. This was incorporated as a post-model adjustment which increased the modelled ECLs by £3.2m. This post-model adjustment was removed in 2023 as the impact of base rate changes were included in the macroeconomic model.

The Company uses 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 2023, the value of post-model adjustments accounted for 3% of the total ECL allowance (2022: <8%).

37.1.4 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.

Notes to the financial statements
continued

For the year ended 31 December

37. Financial risk management
continued

37.1 Credit risk continued

37.1.5 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.

37.1.6 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.

37.1.7 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 36 for further detail), the Company 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.

37.1.8 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 4.5% 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 continue reducing, reaching 2.7% by the end of 2024 . The economy will avoid recession with GDP growth reaching 0.59% in Q4 2024 (YoY change). The Bank of England (BoE) base rate is expected to start to gradually reduce, falling below 4% by the end of 2025. The scenario weighting assigned to the Baseline scenario is 50%.

Outer scenarios

One mild upside scenario

Under the Upside scenario (or Scenario 1), the unemployment rate is expected to peak at 4.3% and inflation will continue to ease reaching below 3% in June 2025 and below 2% by the Q2-2026. The economy accelerates recording growth of 3% in 2024 and 2.9% in 2025. BoE base rate is raised to a new peak of 5.75%. This could be driven by strong labour market and house price only seeing a mild fall in 2024-25 and recovery thereafter. The scenario weighting assigned to the Upside scenario is 20%.

Two downside scenarios

Under the Downside 1 scenario (or Scenario 3), the unemployment rate is expected to peak at 7.2% in late 2026 whilst inflation falls quickly due to the reduction in consumer demand. The economy will be in recession throughout 2024 and early 2025 with GDP reducing by 3.8% in Q4 2024 (Y-o-Y change). The economy exits recession in Q2 2025 but growth remains subdued across the forecast horizon. The BoE base rate reduces from the current level more quickly than under the Baseline scenario in an attempt to stimulate the economy. The scenario weighting assigned to the Downside 1 scenario is 25%.

Notes to the financial statements continued

For the year ended 31 December

37. Financial risk management continued

37.1 Credit risk continued

37.1.8 Multiple economic scenarios and scenario weightings continued

Outer scenarios continued

Two downside scenarios continued

Under the Downside 2 scenario (or Scenario 4), the unemployment rate increases to 6.1% by Dec-2024 and is expected to peak at 7.5% in 2026 whilst inflation reduces sharply, falling below 0% in 2024 driven by a significant reduction in economic activity. The economy enters a steep recession in 2024 with GDP reducing by 6.2% in Q4 2024 (Y-o-Y change) and only starts recovering in Q2-2025. The BoE base rate is expected to be cut sharply to stimulate economic activity. Management increased the modelled stress factor in order to appropriately reflect the impact of this economic environment on the ECL calculation; the impact of this is included in the macroeconomic post-model adjustment (note 37.1.3). The scenario weighting assigned to this scenario is 5%.

Macroeconomic assumptions

The table below summarises the key macroeconomic indicators by scenario.

Detailed assumptions		Upside 1	Baseline	Downside 1	Downside 2
GDP	2024	3.8%	0.6%	(3.8%)	(6.2%)
	2025	3.0%	2.0%	0.2%	0.8%
Unemployment rate	2024	4.1%	4.5%	5.9%	6.1%
	2025	3.8%	4.2%	6.8%	7.1%
Debt service ratio	2024	4.3%	4.1%	3.9%	3.9%
	2025	4.2%	3.9%	3.7%	3.6%
Inflation	2024	3.9%	2.7%	0.9%	(0.02%)
	2025	2.4%	1.5%	0.5%	0.05%

Key changes to methodology in 2024

There are three key changes to the scenarios, namely:

- the relationship between macroeconomic variables has changed, impacting the overall narratives for each scenario;
- the unemployment rate under the Baseline scenario is expected to peak at a lower level (4.5%) than was expected a year ago (4.8%); and
- scenario weights were revisited to reflect the updated scenario narratives, which resulted in a change in the Baseline weight from 60% to 50%, the Upside weight from 5% to 20% and the Downside 1 weight from 30% to 25%.

These changes were driven by the continued pressures observed in the macroeconomic environment in the last 12 months, as well as the change in the Bank's macroeconomic providers in 2023.

Notes to the financial statements
continued

For the year ended 31 December

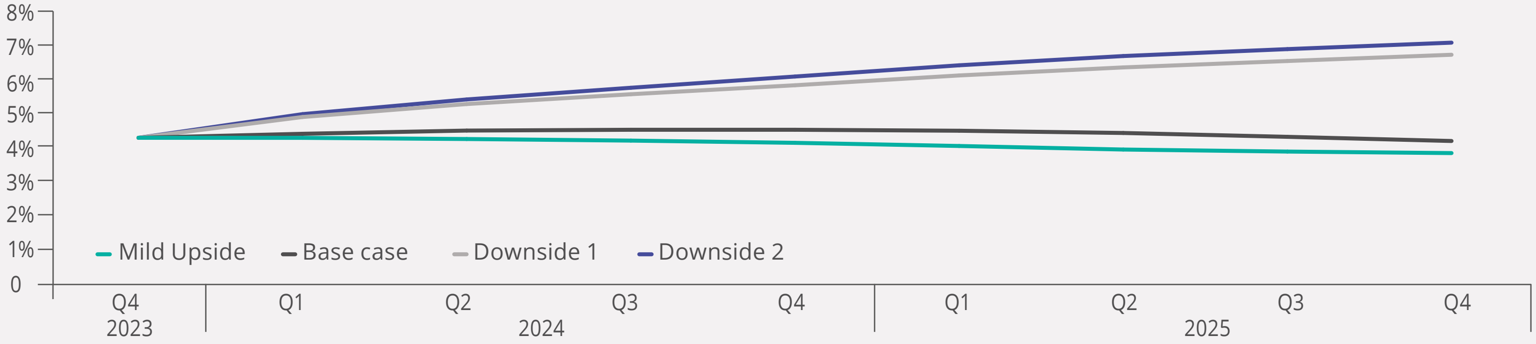
37. Financial risk management
continued

37.1 Credit risk continued

37.1.8 Multiple economic scenarios and scenario weightings continued

Macroeconomic assumptions continued

Unemployment rate by scenario



Peak and trough of macro indicators		Upside 1	Base case	Downside 1	Downside 2
GDP	Peak	3.84%	2.02%	1.6%	1.6%
	Trough	1.3%	0.33%	(3.8%)	(6.2%)
Unemployment rate	Peak	4.3%	4.5%	7.2%	7.5%
	Trough	3.7%	3.8%	4.9%	5.0%
Debt service ratio	Peak	4.3%	4.2%	4.2%	4.2%
	Trough	3.6%	3.6%	3.4%	3.3%
Inflation	Peak	4.3%	4.07%	3.6%	3.3%
	Trough	1.6%	1.33%	(0.2%)	(0.9%)

Scenario weightings

The table below shows the comparison of scenario weights.

	Upside 1	Base case	Downside 1	Downside 2
2023	**20%**	**50%**	**25%**	**5%**
2022	5%	60%	30%	5%

Notes to the financial statements continued

For the year ended 31 December

37. Financial risk management continued

37.1 Credit risk continued

37.1.8 Multiple economic scenarios and scenario weightings continued

Sensitivity of ECL allowance

The table below shows the change in the ECL and proportion of 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
2023					
Exposure			**2,824,182**		
ECL	**175,927**	**166,160**	**170,959**	**187,592**	**203,770**
Proportion of assets in Stage 2	**7.8%**	**6.9%**	**7.2%**	**9.3%**	**11.4%**
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%

Notes to the financial statements
continued

For the year ended 31 December

37. Financial risk management
continued

37.1 Credit risk continued

37.1.9 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 14). 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				
2023	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 balances with:								
– Central banks	1,336,105	—	1,336,105	—	—	—	—	1,336,105
– Other banks	66,063	—	66,063	—	—	—	—	66,063
Debt securities	13,988	—	13,988	—	—	—	—	13,988
Amounts due from other Group undertakings	1,431	—	1,431	—	—	—	—	1,431
Loans and advances to customers	2,650,281	(174,364)	2,475,917	173,901	(1,563)	172,338	402,619	2,245,636
Investment securities held at FVOCI	80,710	—	80,710	—	—	—	—	80,710
Derivative financial instruments	7,974	—	7,974	—	—	—	—	7,974
Other assets	13,386	—	13,386	—	—	—	—	13,386
Total	4,169,938	(174,364)	3,995,574	173,901	(1,563)	172,338	402,619	3,765,296

Notes to the financial statements continued

For the year ended 31 December

37. Financial risk management continued

37.1 Credit risk continued

37.1.9 Maximum and net exposure to credit risk continued

2022	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 balances with:								
– 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
Amounts due from other Group undertakings	—	—	—	—	—	—	—	—
Loans and advances to customers	2,080,853	(141,085)	1,939,768	98,189	(730)	97,459	137,089	1,900,138
Derivative financial instruments	8,346	—	8,346	—	—	—	—	8,346
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

In 2023, the Company revised its approach for calculating non-cash collateral, leveraging improved data availability. For the current year, the collateral assessment was directly informed by an updated asset valuation received by the Company near year end. This data was unavailable in the previous year, resulting in the collateral assessment relying on LGD assumptions at that time.

Notes to the financial statements
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For the year ended 31 December

37. Financial risk management
continued

37.1 Credit risk continued

37.1.10 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.

	Zopa risk ratings					
2023	Tier 1 £000	Tier 2 £000	Tier 3 £000	Tier 4 £000	Tier 5 £000	Total £000
On-balance sheet exposure						
Cash and balances with:						
– Central bank						
Stage 1	1,336,105	—	—	—	—	1,336,105
– Other banks						
Stage 1	66,063	—	—	—	—	66,063
Debt securities						
Stage 1	13,988	—	—	—	—	13,988
Loans and advances to customers						
Stage 1	529,914	1,120,714	548,766	137,020	—	2,336,414
Stage 2	622	5,419	28,468	180,388	—	214,897
Stage 3	—	—	—	—	97,665	97,665
POCI	178	195	61	218	653	1,305
Investment securities held at FVOCI						
Stage 1	80,710	—	—	—	—	80,710
Off-balance sheet exposure						
Stage 1	13,829	99,150	51,297	5,267	—	169,543
Stage 2	9	145	534	2,087	—	2,775
Stage 3	—	—	—	—	1,583	1,583
Total exposure	2,041,418	1,225,623	629,126	324,980	99,901	4,321,048

Notes to the financial statements
continued

For the year ended 31 December

37. Financial risk management
continued

37.1 Credit risk continued

37.1.10 Rating distribution continued

	Zopa risk ratings					
2023	Tier 1 £000	Tier 2 £000	Tier 3 £000	Tier 4 £000	Tier 5 £000	Total £000
On-balance sheet ECL						
Cash and balances with:						
– Central bank						
Stage 1	—	—	—	—	—	—
– Other banks						
Stage 1	—	—	—	—	—	—
Debt securities						
Stage 1	—	—	—	—	—	—
Loans and advances to customers						
Stage 1	1,134	7,686	20,553	14,940	—	44,313
Stage 2	230	77	1,803	58,045	—	60,155
Stage 3	—	—	—	—	69,847	69,847
POCI	4	—	—	1	44	49
Investment securities held at FVOCI						
Stage 1	—	—	—	—	—	—
Off-balance sheet ECL						
Stage 1	11	538	691	174	—	1,414
Stage 2	—	—	2	147	—	149
Stage 3	—	—	—	—	—	—
Total ECL	1,379	8,301	23,049	73,307	69,891	175,927

Notes to the financial statements
continued

For the year ended 31 December

37. Financial risk management
continued

37.1 Credit risk continued

37.1.10 Rating distribution continued

2022	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 balances with:						
– Central bank						
Stage 1	1,397,062	—	—	—	—	1,397,062
– Other banks						
Stage 1	21,429	—	—	—	—	21,429
Debt securities						
Stage 1	13,386	—	—	—	—	13,386
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
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For the year ended 31 December

37. Financial risk management
continued

37.1 Credit risk continued

37.1.10 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 balances with:						
– Central bank						
Stage 1	—	—	—	—	—	—
– Other banks						
Stage 1	—	—	—	—	—	—
Debt securities						
Stage 1	—	—	—	—	—	—
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

Notes to the financial statements
continued

For the year ended 31 December

37. Financial risk management
continued

37.1 Credit risk continued

37.1.11 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.

2023	**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	**2,336,414**	**214,897**	**97,665**	**1,305**	**2,650,281**	**10,796**	**174,364**

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

37.1.12 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.

2023	**Stage 1 £000**	**Stage 2 £000**	**Stage 3 £000**	**POCI £000**	**Total £000**
On-balance sheet exposure	**2,336,414**	**214,897**	**97,665**	**1,305**	**2,650,281**
Off-balance sheet exposure	**169,543**	**2,775**	**1,583**	**—**	**173,901**
On-balance sheet ECL	**44,313**	**60,155**	**69,847**	**49**	**174,364**
Off-balance sheet ECL	**1,414**	**149**	**—**	**—**	**1,563**

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

Notes to the financial statements
continued

For the year ended 31 December

37. Financial risk management
continued

37.1 Credit risk continued

37.1.13 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	
2023	Exposure £000	ECL £000	Exposure £000	ECL £000	Exposure £000	ECL £000	Exposure £000	ECL £000	Exposure £000	ECL £000
As at 1 January 2023	1,794,856	38,924	216,507	53,373	65,747	48,454	3,743	334	2,080,853	141,085
Transfers from Stage 1 to Stage 2	(105,040)	(4,341)	105,040	4,341	—	—	—	—	—	—
Transfers from Stage 2 to Stage 1	74,986	11,044	(74,986)	(11,044)	—	—	—	—	—	—
Transfers to Stage 3	(66,400)	(3,752)	(58,951)	(26,803)	125,351	30,555	—	—	—	—
Net ECL remeasurement on stage transfer	—	(7,313)	—	20,633	—	70,285	—	43	—	83,648
Change in economic risk parameters	—	3,954	—	366	—	—	—	—	—	4,320
Change in ECL methodology	—	(2,113)	—	(7,972)	—	1,146	—	—	—	(8,939)
New lending and purchased assets	1,382,683	23,804	90,375	38,684	30,691	17,647	—	—	1,503,749	80,135
Redemptions and repayments	(744,671)	(15,894)	(63,088)	(11,423)	(15,153)	(7,782)	(1,340)	(2)	(824,252)	(35,101)
Disposal of assets outside of credit risk appetite	—	—	—	—	(83,350)	(64,837)	(802)	(30)	(84,152)	(64,867)
Written-off assets	—	—	—	—	(25,621)	(25,621)	(296)	(296)	(25,917)	(25,917)
As at 31 December 2023	2,336,414	44,313	214,897	60,155	97,665	69,847	1,305	49	2,650,281	174,364
Net movement in the period	541,558	5,389	(1,610)	6,782	31,918	21,393	(2,438)	(285)	569,428	33,279
ECL charge to the income statement	—	5,389	—	6,782	—	21,393	—	(285)	—	33,279
Write-off charge	—	—	—	—	—	25,621	—	296	—	25,917
Add back of ECL on disposal of assets outside of credit risk appetite	—	—	—	—	—	64,837	—	30	—	64,867
Positive provision on POCI loans	—	—	—	—	—	—	—	(997)	—	(997)
Total loans and advances ECL charge to the income statement	—	5,389	—	6,782	—	111,851	—	(956)	—	123,066

Notes to the financial statements
continued

For the year ended 31 December

37. Financial risk management
continued

37.1 Credit risk continued

37.1.13 Movement in total exposures and the corresponding ECL continued

2022	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 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 disposals 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

Notes to the financial statements
continued

For the year ended 31 December

37. Financial risk management
continued

37.1 Credit risk continued

37.1.14 Collateral analysis

The Company holds collateral against car finance loans in the form of motor vehicles. The tables below set out our exposure and ECL allowance (note 15) 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 as at year end.

	Stage 1		Stage 2		Stage 3		POCI		Total	
2023	**Exposure £000**	**ECL £000**	**Exposure £000**	**ECL £000**	**Exposure £000**	**ECL £000**	**Exposure £000**	**ECL £000**	**Exposure £000**	**ECL £000**
Less than 50%	**21,838**	**67**	**1,251**	**87**	**503**	**287**	**165**	**5**	**23,757**	**446**
50% to 70%	**50,824**	**191**	**3,182**	**290**	**1,212**	**676**	**70**	**5**	**55,288**	**1,162**
70% to 80%	**55,956**	**259**	**3,390**	**346**	**1,308**	**734**	**—**	**—**	**60,654**	**1,339**
80% to 90%	**89,773**	**494**	**5,931**	**691**	**1,847**	**1,041**	**—**	**—**	**97,551**	**2,226**
90% to 100%	**101,839**	**665**	**7,092**	**953**	**4,654**	**3,045**	**25**	**1**	**113,610**	**4,664**
Greater than 100%	**75,421**	**551**	**6,138**	**870**	**3,439**	**1,968**	**4**	**—**	**85,002**	**3,389**
Total	**395,651**	**2,227**	**26,984**	**3,237**	**12,963**	**7,751**	**264**	**11**	**435,862**	**13,226**

	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

Notes to the financial statements continued

For the year ended 31 December

37. Financial risk management continued

37.1 Credit risk continued

37.1.15 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. The Company considers the credit risk of treasury assets to be relatively low. No assets are held for speculative purposes or actively traded. Certain liquid assets are held as part of our liquid asset buffer. At 31 December 2023 and 2022, 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	
2023	**2023 £000**	2022 £000	**2023 £000**	2022 £000	**2023 £000**	2022 £000	**2023 £000**	2022 £000
Cash and balances with:								
– Central bank	**—**	—	**1,336,105**	1,397,062	**—**	—	**1,336,105**	1,397,062
– Other banks	**—**	—	**—**	—	**66,063**	21,429	**66,063**	21,429
Debt securities	**13,988**	13,386	**—**	—	**—**	—	**13,988**	13,386
Investment securities held at FVOCI	**—**	—	**—**	—	**80,710**	—	**80,710**	—
Total	**13,988**	13,386	**1,336,105**	1,397,062	**146,773**	21,429	**1,496,866**	1,431,877

37.2 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 only source of borrowing relates to intercompany loans from other Group undertakings.

Notes to the financial statements
continued

For the year ended 31 December

37. Financial risk management
continued

37.2 Market risk continued

37.2.1 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.

2023	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 balances with:							
– Central bank	—	1,336,105	—	—	—	—	1,336,105
– Other banks	—	66,063	—	—	—	—	66,063
Debt securities	—	13,988	—	—	—	—	13,988
Amounts due from other Group undertakings	1,431	—	—	—	—	—	1,431
Derivative financial instruments							
– Derivatives in accounting hedge relationships	—	1,058	3,077	3,828	—	—	7,963
– Derivatives in economic and not accounting hedge	—	—	—	11	—	—	11
Loans and advances to customers	—	220,942	20,369	75,450	2,108,069	53,383	2,478,213
Investments held at FVOCI	—	—	80,710	—	—	—	80,710
Other assets[1]	13,386	—	—	—	—	—	13,386
Total assets	14,817	1,638,156	104,156	79,289	2,108,069	53,383	3,997,870
Derivative financial instruments							
– Derivatives in accounting hedge relationships	—	99	1,511	1,762	—	—	3,372
– Derivatives in economic and not accounting hedge	—	16	—	—	—	—	16
Deposits by customers	—	2,295,725	374,388	358,034	329,345	232	3,357,724
Subordinated liabilities	—	—	—	—	78,817	—	78,817
Amounts due to banks	7,254	151,985	—	—	—	—	159,239
Amounts due to other Group undertakings	615	—	—	—	—	—	615
Other liabilities[2]	25,375	—	—	—	—	—	25,375
Total liabilities	33,244	2,447,825	375,899	359,796	408,162	232	3,625,158
Interest rate sensitivity gap	(18,427)	(809,669)	(271,743)	(280,507)	1,699,907	53,151	372,712
Cumulative gap	(18,427)	(828,096)	(1,099,839)	(1,380,346)	319,561	372,712	372,712

1. Other assets includes unallocated customer transactions in transit and amounts due to Zopa from the debt sale completed in December 2023.
2. Other liabilities includes customer transactions in transit and supplier balances.

Notes to the financial statements continued

For the year ended 31 December

37. Financial risk management continued

37.2 Market risk continued

37.2.1 Repricing analysis continued

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 balances with:							
– Central bank	—	1,397,062	—	—	—	—	1,397,062
– Other banks	—	21,429	—	—	—	—	21,429
Debt securities	—	13,386	—	—	—	—	13,386
Amounts due from other Group undertakings	—	—	—	—	—	—	—
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
Loans and advances to customers	—	129,305	10,361	45,949	1,731,255	21,094	1,937,964
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
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 supplied balances.

Notes to the financial statements
continued

For the year ended 31 December

37. Financial risk management
continued

37.2 Market risk continued

37.2.2 Sensitivity to interest yield curve

The following sensitivity analysis shows the impact of a 100-basis points 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. The Company has revised its calculation methodology, and the 2022 figures have been restated for the purpose of comparability.

	2023 £000	2022 £000
1% shift up of the yield curve	2,562	836
1% shift down of the yield curve	(90)	857

37.3 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.

37.3.1 Analysis of encumbered and unencumbered assets

The following table analyses the Company's encumbered and unencumbered assets. The disclosure is designed to illustrate the availability of the Company's assets to support future funding and is not intended to identify assets that would be available in the event of a resolution or bankruptcy.

A proportion of the Company's assets have the potential to be used as collateral to support central bank or other funding activity. Assets that have been committed for such purposes are classified as encumbered assets and cannot be used for other purposes. All other assets are defined as unencumbered assets. These comprise assets that are potentially available to be used as collateral ('available as collateral') and assets that, due to their nature, are not suitable to be used as collateral ('other').

	Encumbered assets		Unencumbered assets		
2023	Pledged as collateral £000	Other £000	Available as collateral £000	Other £000	Total £000
Cash and balances with:					
– Central bank	10,164	—	1,325,941	—	1,336,105
– Other banks	15,350	—	50,713	—	66,063
Government money market fund	—	—	—	13,988	13,988
Derivative financial assets	—	—	—	7,974	7,974
Loans and advances to customers	296,503	—	2,179,414	2,296	2,478,213
Investment securities held at FVOCI	—	—	80,710	—	80,710
Non-financial assets	—	841	—	65,193	66,034
Total assets	388,155	841	3,636,778	89,451	4,049,087

Notes to the financial statements
continued

For the year ended 31 December

37. Financial risk management
continued

37.3 Liquidity risk continued
37.3.1 Analysis of encumbered and unencumbered assets continued

2022	Encumbered assets		Unencumbered assets		
	Pledged as collateral £000	Other £000	Available as collateral £000	Other £000	Total £000
Cash and balances with:					
– Central bank	5,173	—	1,391,889	—	1,397,062
– Other banks	7,201	—	14,228	—	21,429
Government money market fund	—	—	—	13,386	13,386
Derivative financial assets	—	—	—	8,346	8,346
Loans and advances to customers	375,781	—	1,563,987	(1,804)	1,937,964
Non-financial assets	—	—	—	45,147	45,147
Total assets	388,155	—	2,970,104	65,075	3,423,334

Encumbered assets ‘pledged as collateral’ comprise: cash at central bank totalling £10,164k (2022: £5,173k), which is pledged as collateral against Bank of England’s (BoE) Cash Ratio Deposit (CRD) scheme; cash at other banks totalling £15,350k (2022: £7,201k), which is pledged as collateral against the Company’s derivatives; and loans and advances to customers totalling £296,503k (2022: £375,781k), which is pledged as collateral against BoE’s ILTR and TFSME schemes.

Notes to the financial statements
continued

For the year ended 31 December

37. Financial risk management
continued

37.3 Liquidity risk continued

37.3.2 Contractual maturity

The table below shows an analysis of assets and liabilities analysed according to their contractual terms or when they are expected to be recovered or settled. 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.

2023	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 balances with:								
– Central bank	1,336,105	1,336,105	—	—	—	—	—	—
– Other banks	66,063	66,063	—	—	—	—	—	—
Debt securities	13,988	13,988	—	—	—	—	—	—
Amounts due from other Group undertakings	1,431	1,431	—	—	—	—	—	—
Derivative financial instruments								
– Derivatives in accounting hedge relationships	7,963	—	889	1,317	—	5,757	—	—
– Derivatives in economic and not accounting hedge	11	—	—	—	—	11	—	—
Loans and advances to customers	2,478,213	—	266,768	256,365	471,111	1,830,389	25,341	213,552
Investments held at FVOCI	80,710	—	—	—	—	67,528	13,142	—
Other assets[1]	13,386	—	13,386	—	—	—	—	—
Total assets	3,997,870	1,417,587	281,043	257,682	471,111	1,903,685	38,483	213,552
Derivative financial instruments								
– Derivatives in accounting hedge relationships	3,372	—	—	—	—	3,372	—	—
– Derivatives in economic and not accounting hedge	16	—	16	—	—	—	—	—
Deposits by customers	3,357,724	1,526,702	771,770	379,414	371,969	366,645	288	—
Subordinated liabilities	78,817	—	—	—	14,469	114,620	—	—
Amounts due to banks	159,239	—	9,239	1,963	3,948	157,107	—	—
Amounts due to other Group undertakings	615	615	—	—	—	—	—	—
Other liabilities[2]	25,375	—	25,375	—	—	—	—	—
Total liabilities	3,625,158	1,527,317	806,400	381,377	390,386	641,744	288	—
Liquidity gap	372,712	(109,730)	(525,357)	(123,695)	80,725	1,261,940	38,195	213,552
Cumulative liquidity gap	372,712	(109,730)	(635,087)	(758,782)	(678,057)	583,883	622,078	835,630

1. Other assets includes unallocated customer transactions in transit and amounts due to Zopa from the debt sale completed in December 2023.
2. Other liabilities includes customer transactions in transit and supplier balances.

Notes to the financial statements continued

For the year ended 31 December

37. Financial risk management continued

37.3 Liquidity risk continued

37.3.2 Contractual maturity continued

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 balances with:								
– Central bank	1,397,062	1,397,062	—	—	—	—	—	—
– Other banks	21,429	21,429	—	—	—	—	—	—
Debt securities	13,386	13,386	—	—	—	—	—	—
Amounts due from other Group undertakings	—	—	—	—	—	—	—	—
Derivative financial instruments								
– Derivatives in accounting hedge relationships	8,226	—	—	—	—	8,226	—	—
– Derivatives in economic and not accounting hedge	120	—	22	—	18	80	—	—
Loans and advances to customers	1,937,964	790	4,110	10,361	45,949	1,731,255	21,094	124,405
Other assets[1]	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	—	—
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.

Notes to the financial statements
continued

For the year ended 31 December

37. Financial risk management
continued

37.4 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:

	2023 £000	2022 £000
Not later than one year	30	—
Later than one year and not later than five years	59,901	21,044
Total exposure	59,931	21,044

37.5 Capital risk and management

The Company is required to hold adequate capital resources to meet its Total Capital Requirement (TCR). The TCR consists of a Pillar 1 requirement, which is set at 8% of risk-weighted assets, and a Pillar 2A requirement to cover additional risks not covered by Pillar 1.

The Pillar 2A requirement is set by the PRA, taking into account the Company's calculations within its Internal Capital Adequacy Assessment Process (ICAAP), which is an annual assessment of the risks to the Company, mitigants to those risks and the capital required to withstand them. Additionally, the Company is required to hold capital in respect of regulatory buffers. The Company's capital requirements have been met throughout the year.

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:

	2023 £000	2022 £000
Common equity tier 1 (CET1)		
Called-up share capital	486,319	421,319
Other reserves	6,829	5,902
Accumulated losses	(88,733)	(127,614)
CET 1 Capital before regulatory adjustments	404,415	299,607
Regulatory deductions:		
– Intangible assets	(16,055)	(9,435)
– Deferred tax assets	(24,401)	—
– Other deductions	(15)	—
Total CET1 capital	363,944	290,172
Subordinated debt (Tier 2 Note)	75,000	—
Total capital resources	438,944	290,172

The eligible Tier 2 capital relating to the subordinated debt as at 31 December is £63,292k (2022: nil).

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

38. Post balance sheet events

On 1 January 2024, Zopa Group Limited granted 2,755,000 options to the employees of Zopa Bank under the JSOP, MIP and NTA options plans. For the options granted, the weighted average fair value of the options issued was £1.43.

Additional information

What's in this section

Alternative performance measures (unaudited)

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.

	2023 £m	2022 £m
Total revenue in the month of December	**21.0**	16.5
Annualised revenue run rate (December x 12 months)	**252.5**	198.0

Cost of funds

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

	Note	**2023 £m**	2022 £m
Interest on deposits by customers	2	**125.6**	30.2
Average deposits by customers		**3,408.1**	1,740.0
Cost of funds		**3.7%**	1.7%

Cost of risk

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

	Note	**2023 £m**	2022 £m
Expected credit loss allowance and similar charges	9	**122.8**	100.6
Average gross loans and advances to customers		**2,393.5**	1,735.0
Cost of risk		**5.1%**	5.8%

Cost-to-income ratio

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

	Notes	**2023 £m**	2022 £m
Operating expenses	5	**83.3**	75.6
Net interest and fee and commission	2, 3	**215.3**	165.2
Cost-to-income ratio		**38.7%**	45.8%

Loan-to-deposit ratio

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

	Notes	**2023 £m**	2022 £m
Loans and advances to customers	15	**2,478.2**	1,938.0
Deposits by customers	25	**3,357.7**	2,922.8
Loan-to-deposit ratio		**74%**	66%

Alternative performance measures (unaudited)
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	**2023 £m**	2022 £m
Net interest income	2	**213.0**	166.1
Average gross interest-bearing assets		**4,018.9**	2,329.0
Net interest margin		**5.3%**	7.1%

Total revenue

Total net interest income and fee and commission income.

	Notes	**2023 £m**	2022 £m
Net interest income	2	**213.0**	166.1
Fee and commission income	3	**13.0**	8.1
Total revenue		**226.0**	174.2
Total revenue growth year-on-year		**29.7%**	199.8%

Glossary of terms (unaudited)

Term	Definition
Annualised revenue run rate	Annualised revenue run rate shows what our annual total revenue would be at December levels.
Average deposit per customer	Total deposits from customers at the balance sheet date, divided by the total number of depositors.
Common equity tier 1 ratio	Common equity tier 1 capital divided by risk-weighted assets.
Cost of funds	Interest expense on deposits from customers, as a percentage of average deposits from customers. The average is calculated using monthly average balances.
Cost of risk	Expected credit losses charge divided by average gross loans and advances to customers. The average is calculated using monthly average balances.
Cost-to-income ratio	Operating expenses as reported in the statement of comprehensive income divided by net interest income plus net fee and commission as reported in the statement of comprehensive income.
Coverage ratio	Total expected credit losses allowance divided by total gross loans and advances to customers.
Customers maintain or improve their credit score	Percentage (%) of customers who maintained or improved their credit score year-on-year (>=0).
Customers reborrowing	Percentage (%) of new UPL/Car Finance loans originated between 01-01-2015 and 31-01-2019 that had reborrowed a new UPL/Car Finance within five years of the product's origination.
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 a 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 losses allowance deducted from loans and advances to customers.

Term	Definition
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, car finance loans and point-of-sale)	Total new lending of unsecured personal loans, car finance loans and point-of-sale during the financial year, excluding loans acquired in 2022 and 2023.
HQLA/deposit ratio	The amount of high-quality liquid assets (HQLA) divided by the total deposits. Liquid assets include Zopa's reserves at Bank of England, holdings of government debt securities and investments in money market funds.
Leverage ratio	The amount of institution's capital divided by total exposure, in accordance with the PRA's CRR rules (Leverage Instrument 2021). The leverage ratio is expressed as a percentage.
Liquidity coverage ratio	The amount of unencumbered high-quality liquid assets (HQLA), divided by total net stressed liquidity outflows over a period of 30 days.
Loan-to-deposit ratio	Net loans and advances to customers expressed as a percentage of total deposits by customers.
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 and their balance is not in default.

Glossary of terms (unaudited)

continued

Term	Definition
Number of customers in PoS	Total number of customers with an open facility and not in default.
Number of full-time employees	Total number of full-time employees on the Company's payroll at the year end.
Number of new credit cards issued in the year	Total number of new credit cards opened during the financial year.
Number of merchants (PoS)	Active merchants which have a contractual point-of-sale relationship with ZEF or a platform partner and engage in at least one ZEF transaction during the 12 months prior to the measurement date.
Number of savers	Number of unique customers with an open FTS or Smart Saver account as of 31 December 2023, including those with £0.00 balance.
Operating expenses	Operating expenses as reported in the statement of comprehensive income.
Overall net promoter score	NPS at Origination, across all our products, based on unique customer responses to the satisfaction survey and not weighted by product.
Percentage recommending Zopa as a great place to work	The proportion of our employees who would recommend Zopa as a great place to work.
Profit/(Loss) after tax	Profit/(Loss) after tax as reported in the statement of comprehensive income.
Profit/(Loss) before tax	Profit/(Loss) before tax as reported in the statement of comprehensive income.
Proportion of customers using Borrowing Power	The proportion of our customers across all products who use our Borrowing Power tool.
Risk-weighted assets	On and off-balance sheet assets and exposures weighted according to the PRA's Capital Requirement Regulation (CRR) and Capital Requirements Directive (CRD) rules.

Term	Definition
Total deposits	Total deposits by 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 and 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 and tools: customers who are actively subscribed to Borrowing Power or have interacted with the Zopa tool in the last three months. • App or web: customers who have logged into the app or web in the last three months.
Total regulatory capital	The amount and quality of capital Zopa Bank maintains to comply with the minimum capital requirements under the CRR. We also disclose a number of capital and liquidity metrics which are required by the PRA and FCA. The basis of calculation of those metrics is defined within the relevant legislation.
Total revenue	Total net interest income and fee and commission income.
Total revenue growth	Year-on-year change in total revenue.

Forward-looking statements (unaudited)

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.

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