ZOPA GROUP LIMITED

Annual Report and Accounts for the year ended 31 December 2023

Company information	2
Strategic report	3
Directors' report	22
Independent auditors' report	24
Consolidated financial statements	27
Notes to consolidated financial statements	31
Company financial statements	76
Notes to the company financial statements	79
Additional information	87
Glossary of terms	89
Forward-looking statements	90

COMPANY INFORMATION

Registered office and head office
First Floor Cottons Centre
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SE1 2QG

Company registered number
10624955

Principal Bankers
National Westminster Bank
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London
EC2R 8BP

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

STRATEGIC REPORT

Business review

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

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

In 2023 the Group, through its main operating subsidiary – the Bank, continued to offer products that met the borrowing and saving needs of its customers. The business model relies on providing affordable fairly priced credit in the form of unsecured personal loans ('UPL'), car finance and credit cards. These are funded primarily by retail savings that give competitive returns.

The Group also operates in the point-of-sale market, through a new wholly owned subsidiary, Zopa Embedded Finance Limited ('ZEF'), which was incorporated on 18 January 2023. In April 2023, ZEF completed the acquisition of assets from Rematch Credit Limited (Rematch) operating under the trading name of DivideBuy, a prominent point-of-sale lender in the UK. ZEF operates a point-of-sale platform, connecting merchants and customers with point-of-sale credit offered by Zopa Bank.

In 2023, the economic environment presented sustained challenges for the Group's customers and its 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 savers, the Group supported their financial wellbeing by paying highly competitive interest rates. For borrowers, the Group ensured its lending is affordable and responsible, and as such, the Group continued to prioritise credit resilience, which resulted in lower growth in gross new lending.

Despite the unfavourable backdrop, the Group made good progress over the year. It continued to innovate and support its customers through difficult times, reaching over 1 million customers across all products (+30% year-on-year growth). Each one of those customers has contributed to the Group's financial performance and allowed it to reach key milestones, such as its first full year of profitability.

The Group's investors also continued to be supportive. In 2023, the Group raised £75m in common equity tier 1 (CET1) capital and £75m in tier 2 capital. Given the market conditions, this acts as validation of the Group's strategy and financial trajectory, and it provides the funding required to continue building Britain's Best Bank in 2024.

Financial review

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

Financial performance KPIs	**2023**	2022	Change
Total operating income	**£223.5m**	£153.7m	**+45.4%**
Operating expenses	**£90.4m**	£76.2m	**+18.6%**
Expected credit losses and similar charges	**£122.8m**	£100.6m	**+22.1%**
Net operating income	**£133.2m**	£77.6m	**+71.6%**
Profit /(loss) before tax	**£10.8m**	(£23.8m)	**n.m**[1]
Profit /(loss) after tax	**£33.9m**	(£23.8m)	**n.m**[1]

Total operating income increased significantly to £223.5m, up 45.4%, due to the continued growth in customers choosing to use Zopa to meet their borrowing and saving needs. The growth in total operating income continues to come from interest income through the lending products, with the majority from UPL. In 2023, the Group also earned a higher level of interest income from cash balances due to holding surplus deposits and a higher base rate. The Group's strategy continues to be underpinned by lending products that exhibit strong unit economics with fast payback periods to prioritise long-term profitability.

We've continued to control our costs, with operating expenses growing significantly less (+18.6% 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 overall ECLs charge increased in 2023 to £122.8m (2022: £100.6m). 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.

[1] n.m – no meaningful figure.

This year marks our first full year of profitability, with £10.8m profit before tax (2022: £23.8m 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 £33.9m (2022: £23.8m loss).

Financial position KPIs	**2023**	2022	Change
Cash and cash equivalents	**£1.4bn**	£1.4bn	**-**
Gross loans and advances to customers	**£2.7bn**	£2.1bn	**+27.3%**
Expected credit losses allowance	**£174.4m**	£141.1m	**+23.6%**
Deposits by customers	**£3.4bn**	£2.9bn	**+14.9%**
Total equity	**£413.2m**	£299.7m	**+37.9%**

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, our lending portfolio consisted of unsecured personal loans (UPLs) (71%), car finance (18%), credit cards (10%) and PoS (1%).

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 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 high quality liquid assets (HQLA) at year-end, providing easy and same-day access to liquidity should it be required. 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).

Our capital position remained strong throughout the year. In January 2023, the Group successfully raised another £75m in equity capital, which was then injected into the Bank. 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.

A list of additional alternative performance measures and key performance indicators in included on page 87.

Future developments

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, 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. The uncertain economic environment means we'll need to be disciplined on credit as we grow, continuing to lend only in a responsible and affordable manner. As we scale, our business will face increased costs requiring enhanced focus on cost efficiency.

Section 172 disclosure

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

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

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

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, 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 Group and our stakeholders.

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 Group 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 Group, financial performance and long-term plan, market dynamics, regulatory areas of focus and engagement with other stakeholders.

<table>
<tr><th>Stakeholder</th><th>How we engaged</th><th>What matters to them</th><th>How the Board considers it</th></tr>
<tr><td>Board-level investors

These are our largest shareholders, with representation on the Board.</td><td>• Discussions in Board and Board Committee meetings
• Provision of quarterly investor reports
• Submission of investor-specific information packs</td><td>• Corporate strategic direction
• Product growth
• Financial performance
• Strong management and aligned incentives
• Market perception
• Impact of future dilution
• Valuation outcomes and exit</td><td rowspan="2">Our largest shareholders currently sit on the Board and therefore have direct input into key matters discussed at the Board level. The Board's involvement is through:

• An Annual Strategy and Budget Process. The Board considers the likely capital needs and valuation outcomes as part of this process.
• Product growth and financial performance is monitored through the receipt and discussion of regular MI cadence.</td></tr>
<tr><td>Major investors

These shareholders own a higher percentage of our business than regular shareholders.</td><td>• Quarterly and ad-hoc meetings between investors and senior management
• Provision of quarterly investor reports</td><td>• Corporate strategic direction
• Product growth
• Financial performance
• Strong management and aligned incentives
• Market perception
• Impact of future dilution
• Valuation outcomes and exit</td></tr>
</table>

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

Our employees

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

Diversity, Equity and Inclusion (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.

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. We design and deliver Group-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.

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. This illustrates the alignment of our people with our mission and values – putting our customers first, acting honestly and transparently, and collaborating cross-functionally to deliver innovation. We measure success based on the quality of outcomes and the way in which this performance has paid testament to our values.

Stakeholder	How we engaged	What matters to them	How the Board considers it
Employees	• Employee engagement, measured twice a year • Town hall meetings • Regular company-wide announcements	• Gender pay gap • Fair remuneration • Flexible working • Well-being • Sense of belonging • Working hours • Diversity, inclusion and equality • Learning and development	For example, the Board 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.

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 20% 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	How we engaged	What matters to them	How the Board considers it
Borrowers	• Regular NPS surveys • Ad-hoc research – both quantitative and qualitative – on new and existing products • Market research and competitive analysis to understand trends outside of our customer base • Monitoring of public forums such as Trustpilot and social media to understand customer sentiment • Via customer service teams – using data and where possible call recordings to share themes that emerge with the rest of the business	• Value (interest rate, fees etc.) • Certainty (of rate and acceptance) • Speed of disbursal specifically for loans • Ease of understanding and managing, and achieve better outcomes for themselves	The Board evaluates whether the Group'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 (Financial Services Compensation Scheme coverage) • Interest rate • Ease of application and management	The Board assesses whether the Group'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.

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

Our industry bodies

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

Our regulators

The Group is subject to regulatory approvals, reviews and regulations as a result of its operations in the financial services sector. Members of the Zopa Group executive team and Board of Directors meet with representatives of the PRA and the FCA, the two UK regulators of the financial services sector, on a periodic basis.

By fostering strong relationships with the regulators, Zopa demonstrates its commitment to transparency, accountability and responsible financial practices. This proactive engagement ensures the Group operates within the highest standards, safeguarding the interests of its customers and contributing to the stability of the financial system.

Stakeholder	How we engaged	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.

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 Group made direct charitable donations totalling over £2,000.

Stakeholder	How we engaged	What matters to them	How the Board considers it
Community and environment	• Employee volunteering days • Lunch and learns spanning (include subjects) • Financial health and Borrowing Power tool • Promoting financial inclusiveness, budgeting and resilience • How to spot and avoid financial fraud • Mentoring • Partnership with Code First Girls	• Equality of opportunity • How our activities impact the environment – greenhouse gas (GHG) emissions Sustainability commitments	During the year, the Board continued to support the 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.

Streamlined energy and carbon reporting

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

Methodology

The following methodology was used in determining our GHG emissions:

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

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

Energy efficiency actions

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

- Engaging with suppliers to understand what data they collect and how they measure their GHG emissions.
- Moving to a REGO (Renewable Energy Guarantee of Origin) backed 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.

Greenhouse Gas Emissions[1]

GHG emissions (location based)	**2023**	2022
Scope 1	**24.3 tCO_2e**	—
Scope 2	**70.5 tCO_2e**	56.0 tCO_2e
Scope 3	**—**	—
Total	**94.8 tCO_2e**	56.0 tCO_2e
Total emissions per full-time employee (intensity ratio)	**137.0 kgs of CO_2e**	98.2 kgs of CO_2e

[1] Key year-on-year changes include: (1) Change of an external provider to calculate GHG emissions for 2023. This includes enhancements to GHG calculation methodologies and more comprehensive data collection. The GHG emissions in 2022 and 2023 are therefore not directly comparable; (2) Scope 1 in 2023 reflects emissions generated by air-conditioning in our offices, which was not included in the 2022 emissions; and (3) Both Scope 1 and Scope 2 emissions in 2023 are higher due to an additional office space occupied by Zopa Embedded Finance Limited in Stoke-On-Trent and a higher share of energy use in the London building due to headcount growth and more employees choosing to work from the office.

Risk management

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

In 2023, Zopa Bank Ltd and Zopa Embedded Finance Ltd are the only operating entities within the Zopa group of companies. Zopa Group's standalone activities are limited to raising external capital, setting Group strategy and signing off consolidated financial statements. Reflecting this, the arrangements Zopa Group has in place to manage risk and provide oversight are substantially the same as those of Zopa Bank, and in most cases are operated by Zopa Bank.

Risk culture and people
Zopa's culture and 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 the values to risk management is summarised in the table below.

Values	Application to risk management
Customer champions	**We focus on customers in everything we do.** Risks to customers are given particular focus in our risk management activity, reflecting our very low risk appetite for poor customer outcomes.
Fearless choices	**We make decisions that balance risk and reward.** We take risks where we judge that they'll be rewarded, and we respond proactively when risks worsen to focus on sustainable growth over short-term gains. Ownership and accountability are clearly established to promote an environment where employees feel empowered 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.

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 Group'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 Group Audit Committee (GAC), Zopa's Whistleblowing Champion;
- a conflicts of interest policy that ensures that any potential conflicts between the interests of employees or directors and the interests of the Group are declared and managed appropriately; and
- an anti-bribery and corruption policy that limits the risk of employees becoming subject to inappropriate external incentives.

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

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 Bank's Remuneration Committee, based on behaviours that balance risk and reward;
- managing succession planning, which is overseen by the Bank's 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 Compliance 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 Group and Bank Boards set a 'risk appetite' for each risk type by expressing the maximum level of risk of that type that the Group 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, 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.

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

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

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

- The **Board**, with the support of its 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 Group must follow in its business activities to ensure that risk types are managed within the risk appetite.

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

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

- **Identification:** Risks are identified through a range of methods, including: review of management information; bottom-up analysis (e.g. of process design, credit performance and asset and liability characteristics); horizon-scanning; audits and assurance reviews; scenario and stress testing exercises; operational risk event logging; and top-down material risk reviews;
- **Assessment:** Identified risks are assessed and measured through a range of measures, including: quantification of the likelihood and potential impacts of operational risks; modelling and data analysis; and the application of prescribed methods for quantifying capital and liquidity risks;
- **Mitigation**: Action is taken to reduce identified risks to within appetite. This includes: the implementation of policy standards and controls to reduce the likelihood and severity of risk events; credit acceptance criteria to limit credit risk; decision-making authorities around new risk exposures; limits on financial exposures; and incident and crisis management processes.
- **Monitoring and reporting**: The output of Zopa's identification, assessment and mitigation activities is regularly monitored by responsible business areas and reported to senior individuals and committees at management and Board level, enabling appropriate visibility, discussion, and challenge. This includes monitoring of risk appetite, other items of management information, and forecast and actual performance data; and regular reporting on these to the relevant management and Board committees.
- **Response and learning**: When risks crystalise, or when Zopa's residual risk exposure increases, this is escalated to the appropriate individuals and committees and an appropriate response is agreed. For example: root-cause analysis of operational risk events informs changes that may be required to policies and controls; adverse performance in particular lending segments may inform changes to credit strategy.

Stress testing
Stress testing is an important risk management tool. It forms part of the 'Identification' and 'Assessment' headings under the risk management approach, with specific approaches documented for the Group's key annual assessments, including the individual capital adequacy assessment process (ICAAP), individual liquidity adequacy assessment process (ILAAP) and the Recovery Plan.

Principal risks
The principal risks – or major 'risk types' under Zopa's RMF – faced by the Group given its business model are credit risk, capital risk, liquidity risk, market and interest rate risk, operational risk and strategic risk. Zopa 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.

Credit risk

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

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

Risk profile

The material credit risk that Zopa faces is:
- Consumer borrowers defaulting on their unsecured personal loans, secured car loans or credit card loans.

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

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

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

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

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

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

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

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

Assessment and measurement
The Group’s accounting policy for the measurement of expected credit losses can be found in note 36.

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

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

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

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

Refer to note 36 to the financial statements for more information on the risk management of financial instruments held by the Group.

Capital risk

Definition

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

Risk profile

The material capital risk that the Group faces is:

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

Other less material, risks include:

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

Appetite

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

Mitigation

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

Through the ICAAP, material risks to the Group's capital position are analysed, in the light of the Group's strategy, operations and risk profile. The ICAAP includes stress testing, in which stress scenarios are used to develop an informed understanding and appreciation of the Group's capacity and resilience to withstand shocks of varying severities. Management actions are also identified which could be taken to mitigate the impact of the stresses on the Group's capital position. The ICAAP is treated as a live document and used to inform ongoing capital management. Throughout 2023, the Group continued to maintain capital ratios within the Group's risk appetite and regulatory requirements.

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

Assessment and measurement

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

Throughout the financial year, the Group complied with the capital requirements in force as set out by the PRA. Further details can be found in note 36 to the financial statements and in the Group's published Pillar 3 disclosures report.

Monitoring and reporting

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

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

Liquidity risk

Definition

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

Risk profile

The material liquidity risk that the Group faces is:

- Easy access deposit outflows exceed expectations

Other, less material, risks include:

- Credit card outflows exceed expectations.
- Loan prepayments fall short of expectations.
- Loan delinquencies exceed expectations.
- Lower resave rates than expected for fixed-term deposits as they reach maturity.
- Early fixed-term deposit withdrawals exceed expectations.
- Outflows to corporate suppliers exceed expectations.
- Repayments of tier 2 debt instrument.

The Group's liquidity profile can be found in note 36.

Appetite

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

Mitigation

Liquidity resources are actively managed to ensure that they meet net outflow requirements and minimum standards for asset quality. Short-, medium- and long-term cash-flow forecasts are produced, and actual flows monitored, to inform the level of liquidity resources that must be held. 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 crystalise 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 Group to consider all material liquidity risks in detail, document an analysis of each key liquidity risk driver and set a liquidity risk appetite against each of those drivers.

Monitoring and reporting

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

Market and interest rate risk

Definition

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

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

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

Risk profile

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

In 2023, the Group maintained the vast majority of its liquid asset buffer in the reserves account with the Bank of England and only a small portion of it in a 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 Group faces is:

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

Other, less material, risks include:

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

The Group's repricing gap and sensitivity to interest yield curve can be found in note 36.

Appetite

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

Mitigation

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

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

Assessment and measurement

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

Monitoring and reporting

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

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 profile

The material operational risks that the Group 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 are treated unfairly or suffer injury requiring remediation
- Zopa’s physical assets are damaged

Appetite

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

Mitigation

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

Key controls include:

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

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

Assessment and measurement

Operational risk is measured in terms of potential financial losses, impact on customers and regulatory breaches. All risks identified under RCSAs must be quantified in terms of the severity and likelihood of these adverse outcomes. In terms of the capital required to protect against severe operational risk events, as at 31 December 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.

Monitoring and reporting

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

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 Group'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)

Mitigation

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

- 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.
- 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.

Strategic risk

Definition

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

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

Risk profile

The material strategic risks that the Group faces are:

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

Appetite

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

Mitigation

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

Assessment and measurement

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

Monitoring and reporting

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

Uncertainties and emerging risks

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

Theme	Risk	Mitigation
UK macroeconomic performance	Economic conditions are a major driver of credit performance, potential capital losses and Zopa 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 have remained at that level since. 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 fund raising 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.

Consolidated statement of financial position

As at 31 December

	Notes	2023 £000	2022 £000
Assets			
Cash and balances with:			
– Central bank	12	1,336,105	1,397,062
– Other banks	12	71,280	23,732
Debt securities	12	13,988	13,386
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	16	80,710	—
Prepayments and accrued income	17	5,716	5,294
Other assets	18	14,349	30,020
Property, plant and equipment	20	1,361	789
Right-of-use assets	19	4,241	1,280
Intangible assets	21	22,495	9,468
Deferred tax assets	22	23,907	—
Total assets		4,060,339	3,427,341
Liabilities			
Derivative financial instruments	14	4,180	4,532
Amounts due to banks	23	159,239	180,074
Deposits by customers	24	3,357,724	2,922,845
Subordinated liabilities	25	78,485	—
Accruals		14,242	10,841
Provisions	26	2,158	1,222
Other liabilities	27	28,023	7,086
Lease liabilities	19	3,114	1,067
Total liabilities		3,647,165	3,127,667
Equity			
Called–up share capital	28	1,633	1,479
Share premium	28	470,561	420,761
Other reserves	29	92,836	64,921
Accumulated losses		(151,856)	(187,487)
Total equity		413,174	299,674
Total equity and liabilities		4,060,339	3,427,341

The accompanying accounting policies and notes on pages 31 to 75 are an integral part of the financial statements.

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

Consolidated statement of changes in equity

For the year ended 31 December

	Notes	Called-up share capital £000	Share premium £000	Other reserves[1] £000	Accumulated losses £000	Total equity £000
Balance as at 1 January 2022		1,336	363,132	64,569	(164,730)	264,307
Total comprehensive loss		—	—	—	(23,773)	(23,773)
Shares issued	28	143	57,629	—	—	57,772
Net share option movements	30	—	—	1,341	—	1,341
Other movements	29	—	—	(989)	1,016	27
Balance as at 31 December 2022		1,479	420,761	64,921	(187,487)	299,674
Balance as at 1 January 2023		1,479	420,761	64,921	(187,487)	299,674
Profit for the year		—	—	—	33,892	33,892
Other comprehensive loss relating to investment securities held at FVOCI		—	—	(49)	—	(49)
Total comprehensive (loss)/income		**—**	**—**	**(49)**	**33,892**	**33,843**
Shares issued	28	154	49,800	—	—	49,954
Net share option movements	30	—	—	976	—	976
Net warrants movement		—	—	26,987	1,739	28,726
Other movements	29	—	—	1	—	1
Balance as at 31 December 2023		**1,633**	**470,561**	**92,836**	**(151,856)**	**413,174**

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

The accompanying accounting policies and notes on pages 31 to 75 are an integral part of the financial statements.

Consolidated statement of cash flows

For the year ended 31 December

	Notes	**2023** **£000**	2022 £000
Reconciliation of profit/(loss) before tax to net cash flows from operating activities:			
Profit/(Loss) before tax		**10,828**	(23,783)
Adjustments for:			
– Non-cash items	13	**66,836**	91,284
– Changes in operating assets and liabilities	13	**(130,531)**	1,073,350
– Current tax expense		**(1,337)**	
Net cash (used in)/generated from operating activities		**(54,204)**	1,140,851
Cash flows from investing activities			
Payment for the acquisition of a business	37	**(4,200)**	—
Purchase of investment securities		**(80,367)**	—
Purchase of property, plant and equipment	20	**(1,128)**	(610)
Purchase and development of intangible assets	21	**(12,015)**	(3,949)
Proceeds from disposal of a subsidiary, net of costs to sell	1	**—**	1,567
Disposal of right-of-use asset		**—**	—
Net cash used in investing activities		**(97,710)**	(2,992)
Cash flows from financing activities			
Shares issued	28	**50,264**	60,172
Proceeds from issuance of subordinated liabilities	25	**75,000**	—
Costs related to the issuance of subordinated liabilities		**(332)**	—
Issuance of warrants	31	**25,441**	—
Exercise of warrants	31	**—**	—
Cost of shares issued	28	**(310)**	(2,400)
Change in TFSME and ILTR borrowings	23	**(19,316)**	(3,791)
Cash payments on lease liabilities	19	**(1,804)**	(2,297)
Net cash generated from financing activities		**128,943**	51,684
Net (decrease)/increase in cash and cash equivalents		**(22,971)**	1,189,543
Cash and cash equivalents at start of year	12	**1,434,180**	244,637
Cash and cash equivalents at end of year	12	**1,411,209**	1,434,180
Profit/(Loss) before tax includes:			
Interest received		**339,176**	187,517
Interest paid		**(126,840)**	(29,178)

The accompanying accounting policies and notes on pages 31 to 75 are an integral part of the financial statements.

Notes to the consolidated financial statements

1. Basis of preparation and material accounting policies

Overview

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

1.1 General information

Zopa Group Limited ('the Company') is the financial holding company of Zopa Group ('the Group'). Zopa Group provides retail banking services in the UK. The Company is a private limited company limited by shares incorporated in England & Wales and domiciled in the United Kingdom under the Companies Act 2006 (registered number 10624955). The registered office is at First Floor Cottons Centre, 47–49 Tooley Street, London, England, SE1 2QG. The Company's standalone financial statements and notes are included from page 76 onwards.

1.2 Basis of preparation and consolidation

1.2.1 Basis of preparation

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

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

1.2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2023. Control is achieved where the Company (i) has power over the investee; (ii) is exposed, or has rights, to variable returns from its involvement with the investee; and (iii) has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

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

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

Subsidiaries of the Company are as follows:

	Proportion of voting rights and ordinary share capital held as of 31 December		Principal place of		
Subsidiary name	2023	2022	business or incorporation	Year of incorporation	Principal activities
Zopa Bank Limited	100%	100%	UK	2017	Retail banking
Zopa Embedded Finance	100%	—	UK	2023	Point-of-sale loan platform
Zopa Limited	—	100%	UK	2004	Peer-to-peer lending
P2PS Cars Limited	Dissolved	Dissolved	UK	2015	N/A

Zopa Embedded Finance (ZEF) was incorporated in January 2023 which is a wholly-owned subsidiary of Zopa Group Limited. In April 2023, ZEF completed the acquisition of assets from Rematch Credit Limited (Rematch), a prominent point-of-sale lender in the UK. This acquisition positions the Group to enhance its presence in the point-of-sale and embedded finance market. Zopa Bank Limited utilises ZEF's platform in originating the point-of-sale loans.

The Company has guaranteed the liabilities of ZEF in order that it qualifies for the exemption from audit under Section 479A of the Companies Act 2006 in respect of the year ended 31 December 2023.
The Company has no investments in associates, or joint ventures.

Deconsolidation of a subsidiary

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

Details of the sale of subsidiary

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

1.3 Going concern

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

1.4 Functional and presentational currency

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

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

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

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

1.5 Segmental reporting

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

1.6 Consolidated cash flows statement

The consolidated statement of cash flows shows the changes in cash and cash equivalents arising during the year from operating activities, investing activities and financing activities. The cash flows from operating activities are determined by using the indirect method. Under that method, 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 consolidated financial statements in conformity with IFRS requires management to make judgements and accounting estimates that affect the reported amount of assets and liabilities at the date of the consolidated financial statements, and the reported amount of consolidated income and expenses during the reporting period. Management evaluates its judgements and accounting estimates on an ongoing basis. This takes into account any historical experience and various other factors that are believed to be reasonable under the circumstances.

The areas noted in the table below have a higher degree of complexity, judgements or the estimates have a significant risk of a material adjustment to the carrying amounts within the next financial year. No significant judgements or other significant estimates have been made in the process of applying the accounting policies. Management believe that the underlying assumptions applied as at 31 December 2023 are appropriate and that the consolidated financial statements therefore present the consolidated financial position and results of the Group fairly.

Policy	Judgment	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 36
Deferred tax assets	Determination of whether sufficient taxable profits will be generated in future years to recover DTA.		Note 22

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

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

The Group has 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 Group's consolidated financial statements.

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

2. Net interest income/(loss)
Accounting policy
The effective interest rate (EIR) is the rate that, at the inception of the financial asset and liability, exactly discounts expected future cash payments and receipts over the expected life of the instrument back to the initial carrying amount. When calculating the EIR, the Group estimates cash flows considering all contractual terms of the instrument but does not consider the assets' future credit losses. Management judgement is required in determining the expected life of the loans. 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 (secured car finance loans). Lease income is recognised within interest income in the income statement over the term of the contract using the net investment method (before tax) which reflects a constant periodic rate of return; and
- interest on financial assets and financial liabilities measured at amortised cost and FVOCI calculated on an effective interest rate (EIR) basis.

	Note	2023 £000	2022 £000
Interest income			
Cash and balances held at central bank		**78,452**	11,941
Cash and balances held at other banks		**1,122**	60
Loans and advances to customers		**271,518**	188,055
Investment securities held at FVOCI		**558**	—
Total interest income		**351,650**	200,056
Interest expense			
Deposits by customers		**(125,644)**	(30,208)
Subordinated liabilities		**(3,842)**	—
Amounts due to other banks		**(7,180)**	(2,760)
Lease liabilities	19	**(101)**	(62)
Total interest expense		**(136,767)**	(33,030)
Net interest income		**214,883**	167,026

3. Net fee and commission income/(expense)

Accounting policy

The Group recognises fee and commission income when services are provided to customers and the Group has satisfied its performance obligations under the contract, at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services, and management concludes that there is a high probability that there will be no significant reversal of the estimated income. Income from credit cards and merchant 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 comprised of fees charged to credit card customers, referral commission, merchant fees and servicing fees. Merchant fees relate to the fees earned by Zopa Embedded Finance Limited from the merchants in accessing the POS platform. Servicing fees include both customer fees on the P2P portfolio prior to the sale of Zopa Limited, and fees for servicing the Zopa Limited P2P portfolio after the sale of the company by Zopa Group Limited on 10 February 2022. Fee and commission expense primarily consists of transaction processing and customer eligibility assessment fees.

	2023 £000	2022 £000
Fee and commission income		
Credit cards	**8,031**	6,383
Referral commission	**469**	401
Servicing fees	**549**	1,793
Merchant fees	**4,663**	—
Total fee and commission income	**13,712**	8,577
Fee and commission expense	**(11,468)**	(9,334)
Net fee and commission income	**2,244**	(757)

4. Net gains/(losses) on derecognition of financial assets measured at amortised cost

Accounting policy

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

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

	2023 £000	2022 £000
Gains/(losses) on sale of credit impaired loans	**5,723**	(19,257)
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**	(21,052)

The significant amount of losses on sale of credit-impaired loans in 2022 is due to sales of impaired loans acquired as part of the peer-to-peer (P2P) loans previously held by retail investors on the P2P platform operated by Zopa Limited. Conditions of the acquisition required the Company to purchase all loans, irrespective of their delinquency status.

5. Operating expenses

	Notes	**2023 £000**	2022 £000
People costs	6	**63,933**	49,106
Contractors		**1,895**	1,325
Less: capitalised development costs recognised as intangible additions	21	**(10,797)**	(3,667)
Legal and professional		**9,343**	7,532
Depreciation of PPE and right-of-use assets	19, 20	**2,328**	2,399
Amortisation of intangible assets	21	**5,137**	3,827
Impairment of PPE and intangible assets	20, 21	**163**	24
Information technology		**10,235**	7,958
Loss on acquisition of loan portfolio	35	**—**	651
Other		**8,155**	7,010
Total operating expenses		**90,392**	76,165

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

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

The below expenses are presented gross of staff costs which were capitalised as part of the Group's intangible assets. See note 21 for accounting policies on intangible asset capitalisation.

The accounting policies on share-based payments are included in note 30.

	2023 £000	2022 £000
Employee benefits	**54,486**	**41,082**
Social security costs	**6,467**	**5,144**
Defined contribution pension expenses	**2,004**	**1,539**
Equity-settled share-based payments	**976**	**1,341**
Total wages and salaries	**63,933**	**49,106**

The monthly average number of employees (including directors) of the Group 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

7. Directors' remuneration

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

	2023 £000	2022 £000
Directors' emoluments	**2,648**	2,078
Pension contributions	**10**	9
Total directors' remuneration	**2,658**	2,087

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

	2023	2022
	£000	£000
Aggregate emoluments	**1,245**	951
Pension contributions	**10**	9
Total highest paid director's remuneration	**1,255**	960

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

8. Independent auditors' fees

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

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

	2023	2022
	£000	£000
Fees payable for the audit of the Group's consolidated financial statements	**511**	193
Fees payable for the audit of the subsidiaries' financial statements	**1,156**	800
Fees payable for subscription services	**1**	1
Total fees payable to auditors	**1,668**	994

Auditors' remuneration to PricewaterhouseCoopers LLP for 2023 in relation to the statutory audit includes £141k (2022: £38k) relating to the Group and £111k (2022: £113k) relating to subsidiaries which pertains to additional fees for 2022 that were paid during the current year.

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

Accounting policy

The accounting policies on expected credit losses are included in note 36. Write-offs occur when either part, or all, of the outstanding debt is considered irrecoverable and all viable options to recover the debt have been exhausted. Any amount received after the loss allowance has been raised or debt has been written-off, is recorded as a recovery and reflected as a reduction in the expected credit loss reflected in the income statement.

		2023	2022
	Notes	**£000**	£000
ECL movements and write offs on loans and advances to customers	36	**123,066**	100,685
Recoveries of loans and advances, net of collection costs		**(1,082)**	(216)
Increase in ECL on off-balance sheet exposures	26	**833**	149
Change in expected credit losses and other credit impairment charges		**122,817**	100,618

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

10. Taxation

Accounting policy

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

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

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

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

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

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

10.1 Tax credit

	2023	2022
	£000	£000
Current tax expense/(credit)		
– Current tax on profits for the year	**1,337**	(10)
Deferred tax credit		
– Current year	**(24,401)**	—
Total tax credit	(23,064)	(10)

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 charge/(credit) implied by the standard rate to the actual tax credit is as follows:

	2023	2022
	£000	£000
Profit/(Loss) before tax	10,828	(23,783)
Tax charge/(credit) based on the applicable UK corporation tax rate of 23.5% (2022: 19.00%)	2,545	(4,519)
Tax effect of:		
Non-deductible expenses for tax purposes	**465**	358
Losses for which no deferred tax asset is recognised	664	8,743
Loans to participators credit	—	(10)
Recognition of deferred tax	(26,732)	—
Other differences	(6)	(4,582)
Total tax credit	(23,064)	(10)

11. Financial instruments

Accounting policy

Classification

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

Debt instruments

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

Equity instruments

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

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

- The instrument includes no contractual obligation to (a) deliver cash or another financial asset to another entity; or (b) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.
- If the instrument will or might be settled in the issuer's own equity instruments, it is (a) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or (b) a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. Rights and other issues denominated in any currency are equity instruments, provided that certain conditions are met. The issuer's own equity instruments do not include puttable instruments and obligations arising on liquidation that are classified as equity, or instruments that are contracts for the future receipt or delivery of the issuer's own equity instruments.

Recognition and derecognition

A financial asset or a financial liability is recognised on the consolidated statement of financial position when the Group becomes party to the contractual provisions of the instrument. The Group measures a financial asset or liability on initial recognition at its fair value, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability. The 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 Group has transferred substantially all the risks and rewards of ownership of the assets.

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

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

Classification of financial assets

There are three principal classification categories for financial assets:

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

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

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

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

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

Measurement of financial assets

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

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

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

The accounting policies on the expected credit loss of financial instruments are included in note 36.

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 deposit from customers and subordinated liabilities.

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

During the year ending 31 December 2023 and 31 December 2022 no financial instruments have been offset in the statement of financial position.

Reclassification between financial liability and equity
Equity or liability classification is made by the Group on initial recognition. A change of contractual terms and conditions might result in de-recognising the original instrument and recognising a new instrument.

Equity to financial liability. The financial liability is initially recognised at fair value under the general provisions of IFRS 9. Any difference between the carrying amount of the liability and that of the previously recognised equity instrument is recognised in equity in accordance with the general principle of IAS 32 that no gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of an entity's own equity instruments.

Financial liability to equity instrument. In the converse situation where the terms of a financial liability are changed such that the instrument then meets the definition of an equity instrument, the instrument should be reclassified to equity. The situation is analogous to a debt-for equity swap. Any difference between the carrying amount of the equity and that of the previously recognised liability instrument is recognised in profit or loss. For transactions with shareholders in their capacity as shareholders, the difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued shall be treated as a capital contribution or distribution, which means that it will be recognised in equity instead of profit or loss.

Loan purchase
In March 2023, the Group acquired a loan portfolio consisting of unsecured personal loans which are classified as performing loans at initial recognition.

In December 2021 and January 2022, the Group acquired a loan portfolio that included purchased or originated credit-impaired (POCI) loans on initial recognition. The expected credit losses on POCI loans have been measured on a lifetime basis, with only movements in ECL being recognised on the balance sheet. Further details of this treatment can be found in note 36.

Financial assets pledged as collateral
The Group has pledged £296.5m (2022: £375.8m) of the Loans and advances to customers above 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 23.

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

			Amortised	
	FVTPL	**FVOCI**	**cost**	**Total**
31 December 2023	**£000**	**£000**	**£000**	**£000**
Cash and balances with:				
– Central bank	—	—	**1,336,105**	**1,336,105**
– Other banks	—	—	**71,280**	**71,280**
Debt securities	**13,988**	—	—	**13,988**
Investment securities held at FVOCI	—	**80,710**	—	**80,710**
Derivative financial instruments	**7,974**	—	—	**7,974**
Loans and advances to customers	—	—	**2,478,213**	**2,478,213**
Other assets	—	—	**13,612**	**13,612**
Total financial assets	**21,962**	**80,710**	**3,899,210**	**4,001,882**
Derivative financial instruments	**4,180**	**—**	—	**4,180**
Deposits by customers	—	**—**	**3,357,724**	**3,357,724**
Subordinated liabilities	—	**—**	**78,485**	**78,485**
Amounts due to other banks	—	—	**159,239**	**159,239**
Other liabilities	—	**—**	**25,839**	**25,839**
Total financial liabilities	**4,180**	**—**	**3,621,287**	**3,625,467**

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

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

12. Cash and balances with central bank and other banks

Accounting policy

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

	2023	2022
	£000	£000
Cash and balances with central bank	**1,336,105**	1,397,062
Cash and balances with other banks	**71,280**	23,732
Government money market fund	**13,988**	13,386
Cash and balances with central bank and other banks	**1,421,373**	1,434,180
Less: Cash Ratio Deposit	**(10,164)**	(5,173)
Total cash and cash equivalents	**1,411,209**	1,429,007

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 allowance for expected credit loss in respect of cash and cash equivalents as at 31 December 2023 (31 December 2022: nil).

13. Cash flow information

13.1 Cash (used in)/generated from operations

	Notes	**2023 £000**	2022 £000
Adjustments for non-cash items:			
– Change in expected credit losses and other credit impairment charges	9	122,817	100,618
– ECL on disposal of assets outside of credit risk appetite	36.1.13	(64,867)	(10,288)
– Change in provisions for other liabilities and charges	26	678	246
– Depreciation, amortisation and impairment	5	7,627	6,250
– Share based payment charge	29	976	1,341
– Interest on leases	19	101	62
– Interest on subordinated debt		3,817	—
– Interest on investment securities		(569)	—
– Changes to fair value adjustment of hedged risk	14	(4,357)	1,804
– Change in fair value of financial instruments through profit or loss		1,770	(10,324)
– Loss on sale of subsidiary, net contingent consideration	1	—	1,856
– Gain on bargain purchase	37	(1,171)	—
– Other non–cash items		14	(281)
Total adjustments for non-cash items		66,836	91,284
Changes in operating assets and liabilities:			
– Loans and advances to customers		(593,842)	(855,269)
– Deposits by customers	24	434,879	1,954,845
– Financial instruments at fair value through profit or loss		528	(1,488)
– Amounts due to other banks	23	(11,683)	8,690
– Prepayments and accrued income	17	(422)	(2,331)
– Accruals		3,401	(5,078)
– Other assets		15,671	(28,557)
– Other liabilities		20,937	2,538
Total changes in operating assets and liabilities		(130,531)	1,073,350

13.2 Net debt reconciliation

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

	Liabilities from financing activities			Other assets		
	Borrowings £000	Leases[1] £000	Sub-total £000	Cash £000	Liquid investments £000	Total £000
Net debt as at 1 January 2022	(1,143,175)	(3,302)	(1,146,477)	244,637	1,173,035	271,195
Cash flow items						
Financing cash flows	(1,947,119)	2,297	(1,944,822)	1,033,193	750,401	(161,228)
Interest payments/(receipts)	29,178	—	29,178	156,350	(185,528)	—
Non-cash flow items:						
Interest (expense)/income	(33,030)	—	(33,030)	—	200,056	167,026
Accretion of interest	—	(62)	(62)	—	—	(62)
Net debt as at 31 December 2022	(3,094,146)	(1,067)	(3,095,213)	1,434,180	1,937,964	276,931
Cash flow items						
Financing cash flows	(491,375)	—	(491,375)	(233,503)	608,485	(116,393)
Interest payments/(receipts)	126,840	1,804	128,644	210,532	(339,176)	—
Non-cash flow items:						
Interest (expense)/income	(136,767)	—	(136,767)	—	351,650	214,883
Accretion of interest	—	(101)	(101)	—	—	(101)
New lease	—	(3,750)	(3,750)	—	—	(3,750)
Net debt as at 31 December 2023	(3,595,448)	(3,114)	(3,598,562)	1,411,209	2,558,923	371,570

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.

14. Derivative financial instruments

Accounting policy

Accounting for derivatives

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

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

Hedge accounting

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

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of Comprehensive Income, together with changes in the fair value of the 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 the straight-line method is used is amortised to profit or loss.

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

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

The following table sets out the derivative instruments held:

	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	—
Others:						
Warrant derivatives	**—**	**—**	**792**	43,651	—	3,775
Total derivatives	**550,461**	**7,974**	**4,180**	361,792	8,346	4,532

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

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

In June 2023, the terms of the outstanding warrants relating to the March 2020 issuance were modified such that they were reclassified to equity. Refer to note 31 for further details.

The fair values of warrant derivatives are based on Monte Carlo simulations, using market inputs and management's assumptions about future events. They are classified as level 3 fair values in the fair value hierarchy (note 34) due to the use of unobservable inputs.

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	**5,546**	9,298
Changes in fair value of financial instruments measured at FVTPL	**2,587**	8,520

Interest rate risk on fixed loans (fair value hedge)

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

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

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

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

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

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

	Notional	**Carrying Amount asset/(liability)**	**Statements of financial position line item**	**Changes in fair value used for calculating hedge ineffectiveness (income/(charge))**
2023	**£000**	**£000**		**£000**
Interest rate swaps	**270,000**	**7,963**	Derivative financial assets	**(7,316)**
	255,000	**(3,372)**	Derivative financial liabilities	
	525,000	**4,591**		**(7,316)**

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

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

	Carrying Amount (asset/(liability))	**Accumulated amount of the fair value adjustments on the hedged item**	**Statements of financial position line item**	**Changes in fair value used for calculating hedge ineffectiveness (income/(charge))**
2023	**£000**	**£000**		**£000**
Fixed rate loans and advances to customers	**2,035,830**	**2,296**	Loans and advances to customers	**4,357**

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

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

The contractual maturities of derivatives designated in a hedge relationship are included in note 36.3.2.

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

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

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

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

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		**2,214,419**	1,786,045
Less: allowance for expected credit losses		**(161,136)**	(131,601)
Total unsecured lending		**2,053,283**	1,654,444
Gross finance lease receivables		**480,547**	330,422
Less: unearned finance income		**(44,685)**	(35,614)
Net investment in finance leases		**435,862**	294,808
Less: allowance for expected credit losses		**(13,228)**	(9,484)
Total finance lease receivables		**422,634**	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	**140,755**	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	**480,547**	330,422

Note that this table differs to the maturity table in note 36. This is due to the above table represents the undiscounted contractual repayments of car finance loans, while the table in note 36 representing the maturity profile of the net investment in finance leases.

16. 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 Bank 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. There was no expected credit loss allowance in respect of investment securities as at 31 December 2023.

Refer to Note 11 for the accounting policy.

	2023 **£000**	2022 £000
Covered bonds issued 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 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.

17. Prepayments and accrued income

	2023	2022
	£000	£000
Prepayments	**5,095**	**5,170**
Accrued income	**621**	**124**
Total prepayments and accrued income	**5,716**	**5,294**
Current portion	**5,613**	**5,159**
Non-current portion	**103**	**135**

18. 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 Group from buyers for the December 2023 credit card debt sale, which was settled subsequently in January 2024.

Deferred consideration relates to the sale of Zopa Limited to Plata Holdings UK Limited on 10 February 2022 which was fully settled in August 2023. This transaction is detailed in note 1.

	2023	2022
	£000	£000
Customer receivables	**4,955**	25,798
Deferred consideration	**—**	1,365
Trade debtors	**700**	581
Other receivables	**5,682**	—
Others	**3,012**	2,276
Total other assets	**14,349**	30,020
Current portion	**14,349**	30,020

19. Right-of-use assets and lease liabilities

Accounting policy & commentary

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

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

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

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

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

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

19.1 Right-of-use assets

	2023	2022
	£000	£000
Balance as at 1 January	**1,280**	2,828
Disposal	**4,627**	—
Depreciation charge for the year	**(1,666)**	(1,548)
Balance as at 31 December	**4,241**	1,280

19.2 Lease liabilities

	2023	2022
	£000	£000
Balance as at 1 January	**1,067**	**3,302**
Additions in the year	**3,750**	**—**
Interest charged during the year	**101**	**62**
Payments during the year	**(1,804)**	**(2,297)**
Balance as at 31 December	**3,114**	**1,067**
– of which is current	**1,485**	**1,067**
– of which is non-current	**1,629**	**—**

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

	2023	2022
	£000	£000
Less than one year	**1,764**	1,067
One to two years	**1,820**	—
Total undiscounted lease liabilities	**3,584**	1,067

19.3 Amounts recognised in the income statement

		2023	2022
	Notes	**£000**	£000
Interest expense	2		
Interest on lease liabilities		**(101)**	(62)
Operating expenses	5		
Depreciation of right-of-use assets		**(1,666)**	(1,548)
Unutilised dilapidations accrual		**492**	—
Total amounts recognised in the income statement		**1,275**	(1,610)

20. Property, plant and equipment

Accounting policy

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

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

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

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

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

2023	Office equipment £000	Fixtures and fittings £000	Total £000
Cost			
Balance as at 1 January	**4,045**	**—**	**4,045**
Additions	**1,151**	**83**	**1,234**
Balance as at 31 December	**5,196**	**83**	**5,279**
Accumulated depreciation			
Balance as at 1 January	**3,256**	**—**	**3,256**
Depreciation charge for the year	**662**	**—**	**662**
Balance as at 31 December	**3,918**	**—**	**3,918**
Net book value	**1,278**	**83**	**1,361**

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/write-offs	—	(67)	(67)
Balance as at 31 December	4,045	—	4,045
Accumulated depreciation			
Balance as at 1 January	2,424	24	2,448
Depreciation charge for the year	832	19	851
Disposals/write-offs	—	(43)	(43)
Balance as at 31 December	3,256	—	3,256
Net book value	789	—	789

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

21. Intangible assets

Accounting policy & commentary

Banking License

The banking license 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.

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

Other intangible assets

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

The acquisition of assets from Rematch Credit Limited in 2023 (note 37) resulted in the recognition of technology assets (presented in purchased software), customer relationships and trade name. Refer to note 37 for the details of the acquisition. These intangible assets acquired are recognised at their fair value at their acquisition date and amortised over their useful life.

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

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

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

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

2023	Trade name £000	Purchased software £000	Internally generated £000	Banking license £000	Customer relationships £000	Total £000
Cost						
Balance as at 1 January	**—**	**1,081**	**20,234**	**1,973**	**—**	**23,288**
Additions	**307**	**4,605**	**11,440**	**—**	**1,975**	**18,327**
Disposals/write offs	**—**	**—**	**(1,192)**	**—**	**—**	**(1,192)**
Balance as at 31 December	**307**	**5,686**	**30,482**	**1,973**	**1,975**	**40,423**
Accumulated amortisation						
Balance as at 1 January	**—**	**769**	**13,051**	**—**	**—**	**13,820**
Amortisation charge for the year	**117**	**765**	**4,005**	**—**	**250**	**5,137**
Disposal/write offs	**—**	**—**	**(1,029)**	**—**	**—**	**(1,029)**
Balance as at 31 December	**117**	**1,534**	**16,027**	**—**	**250**	**17,928**
Net book value	**190**	**4,152**	**14,455**	**1,973**	**1,725**	**22,495**

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

22. Deferred tax

Critical accounting judgement and commentary

At 31 December 2023, At 31 December 2023, the Group recognised a deferred tax asset because there is persuasive evidence that sufficient taxable profits will be generated in the future to utilise brought forward taxable 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 Group has performed an analysis of the recoverability of deferred tax assets. In doing so, the Group has considered the following:

- The availability of sufficient taxable temporary differences; and
- The probability that the Bank 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 Zopa Bank's five-year financial plan. This plan reflects management's current expectations regarding competitiveness and profitability, and is based on Board-approved business plans. In assessing the probability of recovery, the Directors have reviewed the Group's five-year forecast that has been used for both the going concern and viability assessment. 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 Group'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 Group has recognised a deferred tax asset in relation to all the tax losses carried forward in the prior years. The Group 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 Group 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	2022
	£000	£000
At 1 January	—	—
Credited/(Charged)		
- to profit or loss	**23,907**	—
At 31 December	**23,907**	—

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

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

	2023	2022
	£000	£000
Fixed asset timing differences	**1,001**	—
Intangible assets timing differences	**(1,291)**	—
Tax losses carried forward	**24,197**	—
Total deferred tax assets	**23,907**	—

In 2023, the Group 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. Deferred tax assets have not been recognised in 2023 in respect of tax losses carried forward totalling £9,420k (2022: £109,279k) and temporary differences on property, plant and equipment amounting to £nil (2022: £3,310k).

In 2023, the Company has not recognised deferred tax assets in respect of temporary differences on tax losses carried forward totalling £6,482 (2022: £1,612).

23. Amounts due to banks

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

	2023	2022
	£000	£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

24. Deposits by customers

	2023	2022
	£000	£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

25. Subordinated liabilities

	2023	2022
	£000	£000
Fixed rate reset subordinated Tier 2 notes due 2033	**75,000**	—
Accrued interest	**3,485**	—
Total subordinated liabilities	**78,485**	—

The Group has £75 million of fixed rate reset subordinated Tier 2 notes in issuance (25 August 2023: £75 million), issued to an existing investor. 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 Group 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.

26. Provisions

Accounting policy & commentary

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

Dilapidations relates to the cost expected to be incurred to return the properties back to the landlords at their initial state when the lease ends. The FCA levy are fees due to regulators for banking service and are settled annually. Off-balance sheet expected credit losses (ECL), relate to provisions on undrawn credit card balances. The accounting policies on off balance sheet expected credit losses are included in note 36.

	Dilapidations	**FCA levy**	**Off–balance sheet ECL**	**Other**	**Total**
2023	**£000**	**£000**	**£000**	**£000**	**£000**
Balance as at 1 January	492	—	730	—	1,222
Additions	595	1,170	1,563	—	3,328
Utilised in the year	—	(1,170)	—	—	(1,170)
Released in the year	(492)	—	(730)	—	(1,222)
Balance as at 31 December	**595**	**—**	**1,563**	**—**	**2,158**

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

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.

27. Other liabilities

	2023	2022
	£000	£000
Other taxation and social security	**2,164**	1,622
Trade creditors	**12,656**	1,026
Customer payables	**9,664**	4,248
Other creditors	**3,539**	190
Total other liabilities	**28,023**	7,086
Current portion	**28,023**	7,086

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.

28. Called-up share capital & share premium

28.1 Called-up share capital – share numbers

Called-up ordinary share capital, issued and fully paid	Ordinary Shares	Series 3 preferred Shares	Total Shares
Balance as at 1 January 2022	129,508,922	4,089,251	133,598,173
Issue of shares	14,279,287	—	14,279,287
Balance as at 31 December 2022	143,788,209	4,089,251	147,877,460
Balance as at 1 January 2023	**143,788,209**	**4,089,251**	**147,877,460**
Issue of shares	**15,444,494**	**—**	**15,444,494**
Share simplification	**4,089,251**	**(4,089,251)**	**—**
Balance as at 31 December 2023	**163,321,954**	**—**	**163,321,954**

28.2 Called-up share capital — share notional values

Called-up ordinary share capital, issued and fully paid	Ordinary Shares £000	Series 3 preferred Shares £000	Total Shares £000
Balance as at 1 January 2022	1,295	41	1,336
Issue of shares	143	—	143
Balance as at 31 December 2022	1,438	41	1,479
Balance as at 1 January 2023	**1,438**	**41**	**1,479**
Issue of shares	**154**	**—**	**154**
Share simplification	**41**	**(41)**	**—**
Balance as at 31 December 2023	**1,633**	**—**	**1,633**

28.3 Share premium

	Total £000
Balance as at 1 January 2022	363,132
Premium received on issued shares	60,029
Cost of issuing shares	(2,400)
Balance as at 31 December 2022	420,761
Balance as at 1 January 2023	420,761
Premium received on issued shares	**50,110**
Cost of issuing shares	**(310)**
Balance as at 31 December 2023	**470,561**

In 2023 the Group issued 15,444,494 shares (2022: 14,279,287). All share issues within the year were fully paid for within the period. Additionally, 4,089,251 ordinary shares were issued in 2023 through a share simplification exercise to reduce the number of share classes.

29. Other reserves

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

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

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

The accounting policies on the share schemes and investment securities are FVOCI are included in notes 30 and 11, respectively.

	FVOCI reserve £000	Share schemes £000	Currency revaluation reserve £000	Merger reserve £000	Capital redemption reserve £000	Warrant reserve £000'	Treasury shares £000	Total £000
Balance as at 1 January 2022	—	12,168	1,016	51,464	6	—	(85)	64,569
Share options movement	—	1,341	—	—	—	—	—	1,341
Net repurchase of own shares	—	—	—	—	—	—	(14)	(14)
Net movement in JSOP loans	—	—	—	—	—	—	39	39
Net movement in EMI loans	—	—	—	—	—	—	2	2
Transfer to accumulated losses	—	—	(1,016)	—	—	—	—	(1,016)
Balance as at 31 December 2022	—	13,509	—	51,464	6	—	(58)	64,921
Balance as at 1 January 2023	—	13,509	—	51,464	6	—	(58)	64,921
Fair value movement	(49)	—	—	—	—	—	—	(49)
Share options movement	—	976	—	—	—	—	—	976
Issuance of warrants	—	—	—	—	—	25,441	—	25,441
Reclassification of warrants to equity	—	—	—	—	—	2,278	—	2,278
Exercise/lapse of warrants	—	—	—	—	—	(732)	—	(732)
Net movement in JSOP loans	—	—	—	—	—	—	1	1
Balance as at 31 December 2023	**(49)**	**14,485**	**—**	**51,464**	**6**	**26,987**	**(57)**	**92,836**

30. Share schemes

Accounting policy

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

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

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

Equity-settled share-based compensation benefits are provided to employees of Zopa Group's subsidiaries via options granted under the Zopa Group Limited Joint Share Ownership Plan (JSOP), the Non-Tax Advantaged Share Option Plan (NTA options) and the Management Incentive Plan (MIP). They are all granted, and equity settled by the parent company, Zopa Group Limited.

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

2023	NTA options £000	JSOP £000	MIP £000	Total £000	Weighted average exercise price £
Balance at 1 January	1,759,082	4,995,529	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	1,598,578	4,688,298	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**

2022	NTA options £000	JSOP £000	MIP £000	Total £000	Weighted average exercise price £
Balance at 1 January	1,465,813	5,230,533	7,140,000	13,836,346	3.9755
Granted	478,853	30,000	104,500	613,353	2.7874
Exercised	(134,557)	(4,128)	—	(138,685)	1.3102
Lapsed	(51,027)	(260,876)	(351,241)	(663,144)	3.8621
Balance at 31 December	1,759,082	4,995,529	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	2022
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: £1,341k).

31. 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 Group. 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: £2,087k).

In January 2022, one executive director exercised 100,000 options under the EMI loan arrangement. There were no share-based options exercised by directors in 2023. As at 31 December 2023, one executive director had an EMI loan outstanding for £150k (2022: £150k). Additionally, two executive directors had JSOP loans for £46k (2022: £46k). These loans were used solely to exercise share options and the shares issued are then subject to a call option until the loans are repaid. One executive director sold 100,000 shares in 2022. There were no share sales by directors in 2023.

Other transactions with related parties

Warrants

The table below shows the total exercisable warrants, exercise price per share, updated expiry date and outstanding warrants for the warrant instruments classified as equity.

				Outstanding warrants	
Warrants	**Number of warrants issued**	**Exercise price per warrant**	**Date of expiry**	**2023**	**2022**
B Warrants	8,762,706	£3.17	11 December 2023	**—**	8,762,706
C Warrants	5,007,261	£3.17	11 December 2025	**5,007,261**	5,007,261
E Warrants	9,081,883	£0.01	31 January 2025	**9,081,883**	—

A, B C Warrants

On 11 June 2020, the Company issued Set A, B, C Warrants ("A Warrants", "B Warrants" and "C Warrants") to IAG Silverstripe LLC with original expiry dates of 11 December 2021, 11 June 2023 and 11 June 2025, respectively. On 18 March 2021, these warrants were amended to extend the expiry dates by six (6) months. On 10 November 2021, A Warrants were partially exercised and the remaining warrants expired in June 2022.

As at 31 December 2022, these warrants were classified as financial liability and presented as derivative liability in the statement of financial position (note 14). These warrants were classified as derivative instruments as the fixed-for-fixed requirement under IAS 32 are not satisfied i.e. the terms of the warrants indicate that, at the inception of the instrument, they can be settled by variable number of its shares on exercise of the warrants.

On 29 June 2023, the Company agreed with the holders of the B Warrants and C Warrants to modify the warrants such that the warrants would meet the fixed-for-fixed requirements. At modification date, the B Warrants and C Warrants were reclassified to Other reserves. Set B warrant was partially exercised in January 2023 while the remaining warrants expired on 11 December 2023.

D Warrants

On 8 December 2021, the Company entered into share subscription agreement with various investors. As part of the 2021 Subscription Agreement, the investors were given the rights to Set D Warrants ("D Warrants") in the event that B Warrants and C Warrants are exercised. Each Set D Warrant comprises the right to subscribe for one Ordinary Share in cash at a subscription price per share equal to its nominal value (£0.01) and expires ninety (90) days from the grant date. In 2023, 617,052 Set D warrants were issued and exercised (2022: nil).

Set D warrant is classified as financial liability and presented as derivative liability in the statement of financial position (note 14). As the contract can be settled in warrants rather than the Group's own equity shares, the instrument is classified as derivative liability rather than equity.

E Warrants

On 31 January 2023, the Company issued ordinary shares to existing shareholders. As part of the subscription agreement, Set E warrant ("E Warrants") instruments were issued. The warrant agreement issued 91.9 transferrable warrants to subscribers of the fundraise for every 100 shares subscribed. The Set E warrants has been classified as equity as the instrument met the fixed-for-fixed requirement. E Warrants has an expiry date of 31 January 2025. No Set E Warrants were exercised in 2023.

Others

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

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

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 payable to Plata Finance 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	—	—
Consideration for sale of Zopa Limited to Plata Holdings UK Limited	3,116	—	—	—
Loan servicing fee income – Plata Finance Limited	1,327	—	—	—
Deferred consideration receivable from Plata Holdings UK Limited	—	—	1,365	—
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.

32. Ultimate controlling party

As at 31 December 2021, IAG Silverstripe Partners LLC (incorporated in the United States of America) was considered to be the ultimate parent and controlling party. However, due to the changes in ownership arising from the fundraise that was completed in February 2022, Zopa Group Limited has no ultimate parent and controlling party as at 31 December 2022 and 2023.

33. Contingent liabilities and commitments

Accounting policy

Customer credit commitments are granted as part of normal product facilities which are offered to customers. Customer commitments comprise undrawn facilities granted on credit cards and approved secured car finance loans. Even though these obligations are not recognised on the balance sheet, they do contain credit risk and an ECL is calculated and recognised for them (see note 36). When these commitments are drawn down or called upon, and meet the recognition criteria as detailed in note 11, these are recognised within our loans and advances to customers.

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

	2023 £000	2022 £000
Loans and advances to customers commitments		
– Undrawn credit card commitments	**173,901**	98,189
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**	111,557

As disclosed in Note 1, ZEF has taken advantage of the exemption available under Section 479A of the Companies Act 2006 in respect of the requirement for audit. As a condition of exemption, the Company has guaranteed the year-end liabilities of ZEF until they are settled in full. The liabilities at the year-end was £8,078k.

34. Fair value of financial instruments

Accounting policy

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

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

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

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 bank	**1,336,105**	**1,336,105**	**—**	**—**	**1,336,105**
– Other banks	**71,280**	**71,280**	**—**	**—**	**71,280**
Debt securities	**13,988**	**13,988**	**—**	**—**	**13,988**
Derivative financial assets	**7,974**	**—**	**7,974**	**—**	**7,974**
Loans and advances to customers	**2,478,213**	**—**	**2,296**	**2,561,848**	**2,564,144**
Investment securities held at FVOCI	**80,710**	**80,710**	**—**	**—**	**80,710**
Other assets	**13,612**	**—**	**—**	**13,612**	**13,612**
Total financial assets	**4,001,882**	**1,502,083**	**10,270**	**2,575,460**	**4,087,813**
Derivative financial liabilities	**4,180**	**—**	**4,180**	**—**	**4,180**
Amounts due to other banks	**159,239**	**159,239**	**—**	**—**	**159,239**
Deposits by customers	**3,357,724**	**—**	**3,357,391**	**—**	**3,357,391**
Subordinated liabilities	**78,485**	**—**	**78,293**	**—**	**78,293**
Other liabilities	**25,839**	**—**	**—**	**25,839**	**25,839**
Total financial liabilities	**3,625,467**	**159,239**	**3,439,864**	**25,839**	**3,624,942**

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 bank	1,397,062	1,397,062	—	—	1,397,062
– Cash and balances with other banks	23,732	23,732	—	—	23,732
Debt securities	13,386	13,386	—	—	13,386
Derivative financial assets	8,346	—	8,346	—	8,346
Loans and advances to customers	1,937,964	—	—	1,946,822	1,946,822
Other assets	28,395	—	—	28,395	28,395
Total financial assets	3,408,885	1,434,180	8,346	1,975,217	3,417,743
Derivative financial liabilities	4,532	—	—	4,532	4,532
Amounts due to other banks	180,074	180,074	—	—	180,074
Deposits by customers	2,922,845	—	2,911,006	—	2,911,006
Other liabilities	5,368	—	—	5,368	5,368
Total financial liabilities	3,112,819	180,074	2,911,006	9,900	3,100,980

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

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

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

Fair value measurements using significant unobservable inputs (Level 3)

The following table presents the changes in level 3 items.

	As at 31 December 2022 £000	Transfer to equity £000	Total losses in the period recognised in the income statement £000	As at 31 December 2023 £000
Derivative financial liabilities – warrants	**(3,775)**	**3,285**	**(302)**	**(792)**

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

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

Description	Fair value at 31 December 2023 £000	Fair value at 31 December 2022 £000	Unobservable inputs	Range of inputs 2023 Min	2023 Max	2022 Min	2022 Max
Warrant derivatives	**792**	**3,775**	Spot share price (£)	**4.06**	**4.06**	**3.47**	**3.47**
			Probability of non-IPO investment round (%)	**40**	**75**	**20**	**90**
			Probability of IPO (%)	**10**	**30**	**7**	**50**

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

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

The main level 3 inputs used by the Group are derived and evaluated as follows:
- funding event probabilities are estimated based on latest forecasts and Capital Management Plans which are produced by management for approval by the Group and Bank Boards and shared where relevant with the PRA.
- spot share price of the Group are estimated based on the implied equity value of the Group and P/B multiple. The movement in the P/B multiple is analysed using comparative companies in the digital banking sector, as well as companies within the wider UK/EU commercial banking sector.

Sensitivity analysis was not presented as the outstanding balance of the warrant derivatives is no longer material as at 31 December 2023.

35. 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 £35 million which is deemed to be its fair value at acquisition date. These loans are classified as performing loans at initial recognition.

In January 2022 and December 2021, the Group acquired a loan portfolio consisting of both unsecured personal loans and hire purchase car finance loans. These loan acquisitions were identical and were purchased from Retail investors serviced by Zopa Limited's peer-to-peer lending platform, utilising a contractual clause of the loans which enabled the Group to purchase loans from investors at an amount equal to their principal value. Since each loan was purchased at their principal value, which does not represent a market transaction, the fair value of the loans does not equal the purchase price of the loans. As a result, the fair value of the loans has been estimated using IFRS 13 fair value methodology. 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 January 2022 and December 2021 originated loans to a net present value of zero, with an adjustment to account for the lack of active market for the loan portfolio. This combined rate was deemed to be 6.86%. 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.

36. Financial risk management

36.1 Credit risk

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

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

36.1.1 Governance around ECL allowance

The IFRS 9 ECL models used by the Group have been developed in-house and validated by the second line of defence. As explained further in note 36.1.3 below, the determination of expected credit losses is inherently judgemental and requires management to make significant judgements and estimates. To ensure that these judgements and estimates remain appropriate, the Group has in place a robust governance framework around ECL allowance. The main components of that framework are as follows:

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

The reasonableness of the ECL allowance is assessed at least quarterly and includes:
- performance monitoring of ECL models against actual outcomes;
- monitoring of trends against budgets and forecasts;
- reviewing underlying credit risk performance;
- stand-back assessment comparing the level of coverage ratios against actual credit losses; and
- benchmarking key ratios against the wider market and banks of a similar size.

36.1.2 Measurement of ECL

The approach set out in this note applies to:
- financial assets measured at amortised cost;
- loan commitments; and
- finance lease receivables where the Group is the lessor.

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

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

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

Climate risk
The Company conducted a credit risk assessment regarding the potential impact of climate change on physical risks. This assessment employed a stress scenario approach. The analysis did not lead to the identification of a separate impairment charge for the 2023 reporting period.

Forward-looking information
The Group uses forecasts on key macroeconomic indicators to estimate the macroeconomic effect on PD. The key indicators that are used are unemployment rate and debt service ratio. The model used to estimate the macroeconomic effect is a component of the PD model and has been developed on historical data obtained from credit reference agencies (CRAs).

The Group 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.

36.1.3 Management judgements in measurement of ECL
As at 31 December 2023, the Bank holds a post-model adjustment to reflect management's judgement of the impact on ECL over and above the impact resulting from the raw scenarios. This increases weighted average ECL by £2.4m (1.38%) and is reflected in the results by scenario as shown in the sensitivity analysis table (Note 36.1.8).

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 Group 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.

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

At the end of 2023, the value of post- model adjustments accounted for 2% of the total ECL allowance (2022: <8%).

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

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

Qualitative criteria
Across all products, any loan or credit card that is in forbearance is assigned to Stage 2. In UPL and car finance, any loan that is 1 day past due is assigned to Stage 2.
Backstop criteria
Across all three products, any loan or credit card account that is 30 days past due is assigned to Stage 2.

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

36.1.5 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.

36.1.6 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.

36.1.7 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 35 for further detail), the Group purchased a portfolio of credit-impaired loans (POCI). Expected credit losses on a POCI portfolio are not measured using the general model under IFRS 9. Instead, impairment on a POCI portfolio is determined based on full lifetime ECL. The lifetime ECL on initial recognition is included in the estimated cash flows when calculating the credit-impaired effective interest rate. Thus, no loss allowance is recognised on initial recognition. Subsequently, the reported ECL allowance on POCI loans represents the change in lifetime ECL since the purchase date.

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

36.1.8 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 (Y-o-Y 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%.

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 36.1.3). The scenario weighting assigned to this scenario is 5%.

Key changes to scenarios in 2023

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%.

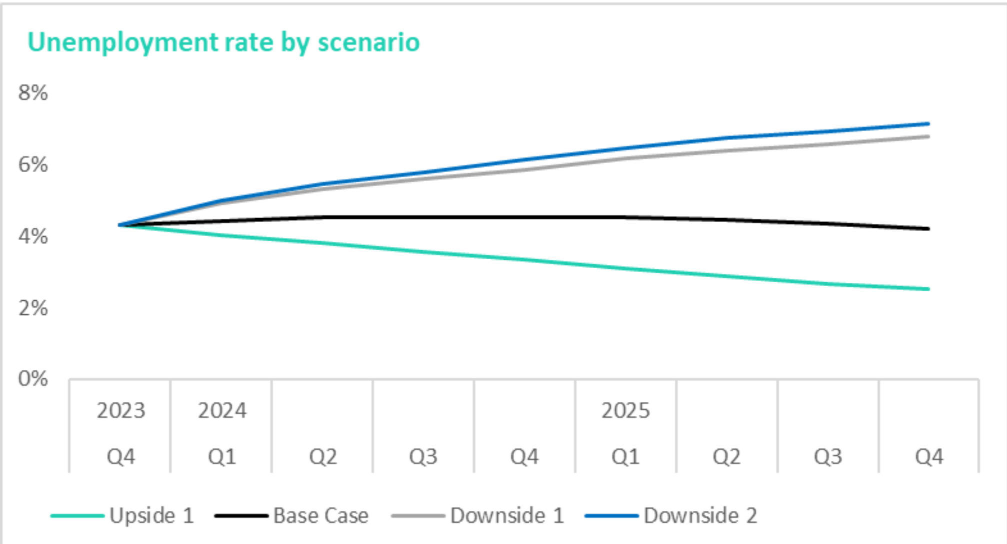
These changes were driven by the continued pressures observed in the macroeconomic environment in the last 12 months, as well as the change in the Bank's macroeconomic providers in 2023.

Macroeconomic assumptions

The table below summarises the key macroeconomic indicators by scenario.

Detailed assumptions		Upside 1	Baseline	Downside 1	Downside 2
GDP	2024	6.0%	0.6%	(3.8%)	(6.2%)
	2025	3.5%	2.0%	1.3%	0.8%
Unemployment rate	2024	3.3%	4.5%	5.9%	6.1%
	2025	2.5%	4.3%	6.8%	7.1%
Debt Service Ratio	2024	4.4%	4.1%	3.9%	3.9%
	2025	4.3%	3.9%	3.7%	3.6%
Inflation	2024	4.8%	2.7%	0.9%	0.0%
	2025	3.0%	1.5%	0.5%	0.1%

Unemployment rate by scenario



Peak and trough of Macro indicators		Upside 1	Base case	Downside 1	Downside 2
GDP	Peak	3.8%	2.0%	1.6%	1.6%
	Trough	1.3%	0.3%	-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%

Sensitivity of ECL allowance

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

	Weighted £000	**Upside 1 £000**	**Base case £000**	**Downside 1 £000**	**Downside 2 £000**
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%

36.1.9 Maximum and net exposure to credit risk

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

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

	On-balance sheet assets			**Off-balance sheet assets**				
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 bank	**1,336,105**	**—**	**1,336,105**	**—**	**—**	**—**	**—**	**1,336,105**
– Other banks	**71,280**	**—**	**71,280**	**—**	**—**	**—**	**—**	**71,280**
Debt securities	**13,988**	**—**	**13,988**	**—**	**—**	**—**	**—**	**13,988**
Derivative financial instruments	**7,974**	**—**	**7,974**	**—**	**—**	**—**	**—**	**7,974**
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**
Other assets	**13,612**	**—**	**13,612**	**—**	**—**	**—**	**—**	**13,612**
Total	**4,173,950**	**(174,364)**	**3,999,586**	**173,901**	**(1,563)**	**172,338**	**402,619**	**3,769,305**

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

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.

36.1.10 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	**71,280**	**—**	**—**	**—**	**—**	**71,280**
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	**2,046,635**	**1,225,623**	**629,126**	**324,980**	**99,901**	**4,326,265**

	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**

	Zopa risk ratings					
2022	Tier 1 £000	Tier 2 £000	Tier 3 £000	Tier 4 £000	Tier 5 £000	Total £000
On–balance sheet exposure						
Cash and balances with:						
– Central bank						
Stage 1	1,397,062	—	—	—	—	1,397,062
– Other banks						
Stage 1	23,732	—	—	—	—	23,732
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	1,925,347	884,717	481,671	253,013	68,474	3,613,222

	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

36.1.11 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

36.1.12 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

36.1.13 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	
	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL
2023	£000	£000	£000	£000	£000	£000	£000	£000	£000	£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 scenarios	—	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 ECL charge to the Income Statement	—	5,389	—	6,782	—	111,851	—	(956)	—	123,066

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

36.1.14 Collateral analysis

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

	Stage 1		Stage 2		Stage 3		POCI		Total	
	Exposure	**ECL**	**Exposure**	**ECL**	**Exposure**	**ECL**	**Exposure**	**ECL**	**Exposure**	**ECL**
2023	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Less than 50%	**21,838**	**67**	**1,251**	**87**	**503**	**287**	**165**	**5**	**23,757**	**446**
50% to 70%	**50,824**	**192**	**3,182**	**290**	**1,212**	**676**	**70**	**5**	**55,288**	**1,162**
70% to 80%	**55,956**	**259**	**3,390**	**347**	**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**	**2,228**	**26,984**	**3,238**	**12,963**	**7,751**	**264**	**11**	**435,862**	**13,226**

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

36.1.15 Credit risk for other financial assets

Credit risk exists where the Group has acquired securities or placed cash deposits with other financial institutions as part of our treasury portfolio of assets. The Group considers the credit risk of treasury assets to be relatively low. No assets are held for speculative purposes or actively traded. Certain liquid assets are held as part of our liquid asset buffer. At 31 December 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 £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	—	—	**—**	—	**71,280**	23,732	**71,280**	23,732
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	**151,990**	23,732	**1,502,083**	1,434,180

36.2 Market risk

Market risk is the risk of a reduction in earnings, value or reserves caused by changes in the prices of financial instruments. The Group's market risk consists primarily of exposure to changes in interest rates. Interest rate risk is the risk that the net value of, or net income arising from, the firm's assets and liabilities is impacted as a result of changes to interest rates. Financial Assets are limited to fixed interest rated income from loans and advances to customers, UK Government T-Bills and Money Market Funds (MMF), cash and balances with other banks and its own equity through the warrant derivatives. The only source of borrowing relates to inter-company loans from other Group undertakings.

36.2.1 Repricing analysis

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

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	**—**	**71,280**	**—**	**—**	**—**	**—**	**71,280**
Debt securities	**—**	**13,988**	**—**	**—**	**—**	**—**	**13,988**
Derivative financial assets:							
– 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**
Investment securities held at FVOCI	**—**	**—**	**80,710**	**—**	**—**	**—**	**80,710**
Other assets[1]	**13,612**	**—**	**—**	**—**	**—**	**—**	**13,612**
Total assets	**13,612**	**1,643,373**	**104,156**	**79,289**	**2,108,069**	**53,383**	**4,001,882**
Derivative financial liabilities:							
– Derivatives in accounting hedge relationships	**—**	**99**	**1,511**	**1,762**	**—**	**—**	**3,372**
– Other derivatives	**792**	**16**	**—**	**—**	**—**	**—**	**808**
Amounts due to banks	**7,254**	**151,985**	**—**	**—**	**—**	**—**	**159,239**
Deposits by customers	**—**	**2,295,725**	**374,388**	**358,034**	**329,345**	**232**	**3,357,724**
Subordinated liabilities	**—**	**—**	**—**	**—**	**—**	**78,485**	**78,485**
Other liabilities[2]	**25,839**	**—**	**—**	**—**	**—**	**—**	**25,839**
Total liabilities	**33,885**	**2,447,825**	**375,899**	**359,796**	**329,345**	**78,717**	**3,625,467**
Interest rate sensitivity gap	**(20,273)**	**(804,452)**	**(271,743)**	**(280,507)**	**1,778,724**	**(25,334)**	**376,415**
Cumulative gap	**(20,273)**	**(824,725)**	**(1,096,468)**	**(1,376,975)**	**401,749**	**376,415**	**376,415**

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, supplier balances and amounts due to buyers for the debt sales relating to gap cash and buy-backs.

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

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

36.2.2 Sensitivity to interest yield curve

The following sensitivity analysis shows the impact of a two-percentage point shift in the interest yield curve on the expected net interest income over a one-year forecasting horizon for financial instruments held at the end of the year. The Company has revised its calculation methodology, and the 2022 figures have been represented 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

36.3 Liquidity risk

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

36.3.1 Analysis of encumbered and unencumbered assets

The following table analyses Group'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 Group'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		
	Pledged as collateral	**Other**	**Available as collateral**	**Other**	**Total**
2023	**£000**	**£000**	£000	**£000**	**£000**
Cash and balances with:					
– Central bank	**10,164**	**—**	**1,325,941**	**—**	**1,336,105**
– Other banks	**15,350**	**—**	**55,930**	**—**	**71,280**
– 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	**—**	**881**	**—**	**71,188**	**72,069**
Total assets	**322,017**	**881**	**3,641,995**	**95,446**	**4,060,339**

	Encumbered assets		Unencumbered assets		
	Pledged as collateral	Other	Available as collateral	Other	Total
2022	£000	£000	£000	£000	£000
Cash and balances with:					
– Central bank	5,173	—	1,391,889	—	1,397,062
– Other banks	7,201	—	16,531	—	23,732
– 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	—	—	—	46,851	46,851
Total assets	388,155	—	2,972,407	66,779	3,427,341

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 company’s derivatives; and Loans and advances to customers totalling £296,503k (2022: £375,781k), which is pledged as collateral against BoE’s Indexed Long-Term Repo (ILTR) and TFSME schemes.

36.3.2 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 Group in managing the liquidity risk, because in practice these assets and liabilities may mature earlier or later than implied by their contractual tenor, for example if repaid earlier.

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	**71,280**	**71,280**	**—**	**—**	**—**	**—**	**—**	**—**
Debt securities	**13,988**	**13,988**	**—**	**—**	**—**	**—**	**—**	**—**
Derivative financial assets:								
– 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**	**256,265**	**471,111**	**1,830,389**	**25,341**	**213,552**
Investment securities held at FVOCI	**80,710**	**—**	**—**	**—**	**—**	**67,528**	**13,142**	**—**
Other assets[1]	**13,612**	**—**	**13,612**	**—**	**—**	**—**	**—**	**—**
Total assets	**4,001,882**	**1,421,373**	**281,269**	**257,682**	**471,111**	**1,903,685**	**38,483**	**213,552**
Derivative financial liabilities:								
– Derivatives in accounting hedge relationships	**3,372**	**—**	**—**	**—**	**—**	**3,372**	**—**	**—**
– Warrant derivatives	**808**	**—**	**16**	**—**	**—**	**792**	**—**	**—**
Amounts due to banks	**159,239**	**—**	**9,239**	**1,963**	**3,948**	**157,107**	**—**	**—**
Deposits by customers	**3,357,724**	**1,526,702**	**771,770**	**379,414**	**371,969**	**366,645**	**288**	**—**
Subordinated liabilities	**78,485**	**—**	**—**	**—**	**14,469**	**114,620**	**—**	**—**
Other liabilities[2]	**25,839**	**—**	**25,839**	**—**	**—**	**—**	**—**	**—**
Total liabilities	**3,625,467**	**1,526,702**	**806,864**	**381,377**	**390,386**	**642,536**	**288**	**—**
Liquidity gap	**376,415**	**(105,329)**	**(525,595)**	**(123,695)**	**80,725**	**1,261,148**	**38,195**	**213,552**
Cumulative liquidity gap	**376,415**	**(105,329)**	**(630,924)**	**(754,619)**	**(673,894)**	**587,254**	**625,449**	**839,001**

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

2. Other liabilities includes customer transactions in transit, supplier balances and amounts due to buyers for the debt sales relating to gap cash and buy-backs.

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	23,732	23,732	—	—	—	—	—	—
Debt securities	13,386	13,386	—	—	—	—	—	—
Derivative financial assets:								
– Derivatives in accounting hedge relationships	8,226	—	—	—	—	8,226	—	—
– Derivatives in economic and not accounting hedge	120	—	22	—	18	80	—	—
Loans and advances to customers	1,937,964	790	4,110	10,361	45,949	1,731,255	21,094	124,405
Other assets[1]	28,395	—	28,395	—	—	—	—	—
Total assets	3,408,885	1,434,970	32,527	10,361	45,967	1,739,561	21,094	124,405
Derivative financial liabilities:								
– Derivatives in accounting hedge relationships	757	—	—	—	—	757	—	—
– Warrant derivatives	3,775	—	—	—	—	3,775	—	—
Amounts due to banks	180,074	7,465	22,609	—	—	150,000	—	—
Deposits by customers	2,922,845	822,433	1,028,748	390,631	400,069	280,137	827	—
Other liabilities[2]	5,368	—	5,368	—	—	—	—	—
Total liabilities	3,112,819	829,898	1,056,725	390,631	400,069	434,669	827	—
Liquidity gap	296,066	605,072	(1,024,198)	(380,270)	(354,102)	1,304,892	20,267	124,405
Cumulative liquidity gap	296,066	605,072	(419,126)	(799,396)	(1,153,498)	151,394	171,661	296,066

1. Other assets includes unallocated customer transactions in transit and refundable rental deposits.

2. Other liabilities includes unallocated customer transactions in transit, supplier balances and deferred P2P origination costs.

36.4 Residual value risk

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

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

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

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

	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 cash and cash equivalents	**59,931**	21,044

36.5 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	2022
	£000	£000
Common equity tier 1 (CET1)		
Called-up share capital	**1,633**	1,479
Share premium	**470,561**	420,761
Other reserves	**92,836**	64,921
Accumulated losses	**(151,856)**	(187,487)
CET 1 Capital before regulatory adjustments	**413,174**	299,674
Regulatory deductions:		
– Intangible assets	**(22,495)**	(9,468)
– Deferred tax assets	**(23,907)**	—
– Other deductions	**(15)**	—
Total CET1 capital	**366,757**	290,206
Subordinated debt (Tier 2 Note)	**74,668**	—
Total capital resources	**441,425**	290,206

The eligible Tier 2 capital relating to the subordinated debt as at 31 December is £63,188k (2022: nil).

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

37. Business combination

Accounting policy

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group.

In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has an option to apply a 'concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Acquisition in 2023

Acquisition of Rematch Credit Limited's Assets

On 1 April 2023, the Group completed the acquisition of assets from Rematch Credit Limited, a point-of-sale lender in the UK. Rematch Credit Limited used to provide an interest-free instalment credit, under the trade name DivideBuy. The acquisition was completed in two stages. The first stage of this transaction was completed on 14 February 2023, with the Group purchasing the technology platform. The second stage of the transaction, which included transfer of people as well as novation of key supplier and merchant contracts, was completed on 1 April 2023. The acquisition has enabled the Group to accelerate its entry into the point of sale and embedded finance market.

The acquisition of Rematch's assets by the Group was made by Zopa Embedded Finance (ZEF), a wholly-owned subsidiary of the Group which was incorporated in January 2023. The acquisition was accounted for as business combination under IFRS 3. The presence of inputs, processes, and outputs, along with the interdependencies among various elements, demonstrates that the assets acquired collectively operate as a business unit capable of generating outputs independently.

Assets acquired and liabilities assumed

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value £000
Furniture and fixtures	**53**
Right of use asset	**166**
Intangible assets – trade name	**307**
Intangible assets – retailer relationships	**4,030**
Intangible assets – software	**1,975**
	6,531
Lease liability	**166**
Deferred tax liability	**494**
	660
Total identifiable net assets at fair value	**5,871**
Gain on bargain purchase	**1,171**
Purchase consideration transferred	**4,700**

The gain on bargain purchase comprises £0.9 million attributable to workforce. The gain on bargain purchase resulted from the fact that the seller was in financial distress at the time of the acquisition, and its working capital and cash positions meant that the business would become insolvent if the entity's takeover or asset acquisition were not to happen. This has created a unique opportunity for the Group to acquire a well established business, with great technology, at a consideration lower than its fair value.

The fair value of the intangible assets have been estimated by applying the replacement cost approach for the software. The income approach was applied for trade name and retailer relationships by using relief of royalty method and multi-period excess earnings method, respectively.

The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities. No adjustment was made to the lease liabilities as the terms of the lease are at market terms.

From the date of acquisition, ZEF contributed £4,949k of revenue and £499k of loss before tax of the Group.

Purchase consideration

The purchase consideration include:

	£000
Cash paid	**4,200**
Deferred consideration	**500**
Total purchase consideration	**4,700**

The deferred consideration that is outstanding as at the second completion date relates to the compensation to be paid to Rematch for transferring/novating the remaining key supplier contracts from Rematch to ZEF and would be paid within 9 months of the acquisition date. The deferred consideration was paid in full in January 2024. This amount has not been discounted as the impact of discounting is immaterial.

Acquisition-related costs

Acquisition-related costs of £746.6k that were not directly attributable to the issue of shares are included in operating expenses in the statement of profit or loss and in operating cash flows in the statement of cash flows.

There were no contingent considerations agreed in the acquisition.

There were no acquisitions in the year ending 31 December 2022.

38. Post balance sheet events

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

Company statement of financial position

As at 31 December

	Notes	**2023 £000**	2022 £000
Assets			
Cash and balances with:			
– Other banks		**1,075**	2,303
Debt securities	8	**78,817**	—
Amounts due from other Group undertakings	6	**4,516**	106
Prepayments and accrued income		**285**	287
Investment in subsidiaries	7	**499,697**	427,221
Other assets		**346**	1,662
Total assets		**584,736**	431,579
Liabilities			
Derivative financial instruments		**792**	3,775
Subordinated liabilities	8	**78,485**	—
Amounts due to other Group undertakings	6	**18**	—
Accruals		**427**	392
Other liabilities		**160**	1
Total liabilities		**79,882**	4,168
Equity			
Called-up share capital	9	**1,633**	1,479
Share premium	9	**470,561**	420,761
Other reserves	10	**98,195**	70,230
Accumulated losses		**(65,535)**	(65,059)
Total equity		**504,854**	427,411
Total equity and liabilities		**584,736**	431,579

The loss after tax for the year ended 31 December 2023 of Zopa Group Limited was £2,214k (2022: £2,615k profit). As permitted by section 408 of the Companies Act 2006, no separate Statement of Comprehensive Income is presented in respect of the Company.

The accompanying accounting policies and notes on pages 79 to 86 are an integral part of the financial statements.

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

Company statement of changes in equity

For the year ended 31 December

	Notes	Called-up share capital £000	Share premium £000	Other reserves £000	Accumulated losses £000	Total equity £000
Balance as at 1 January 2022		1,336	363,132	68,866	(67,674)	365,660
Total comprehensive income		—	—	—	2,615	2,615
Shares issued	9	143	57,629	—	—	57,772
Net share option movements	10	—	—	1,341	—	1,341
Other movements	10	—	—	23	—	23
Balance as at 31 December 2022		1,479	420,761	70,230	(65,059)	427,411
Balance as at 1 January 2023		**1,479**	**420,761**	**70,230**	**(65,059)**	**427,411**
Total comprehensive loss		**—**	**—**	**—**	**(2,214)**	**(2,214)**
Shares issued	9	**154**	**49,800**	**—**	**—**	**49,954**
Net share option movements	10	**—**	**—**	**976**	**—**	**976**
Net warrants movement		**—**	**—**	**26,987**	**1,738**	**28,725**
Other movements	10	**—**	**—**	**2**	**—**	**2**
Balance as at 31 December 2023		**1,633**	**470,561**	**98,195**	**(65,535)**	**504,854**

The accompanying accounting policies and notes on pages 79 to 86 are an integral part of the financial statements.

Company statement of cash flows

For the year ended 31 December

	Notes	2023 £000	2022 £000
Reconciliation of (loss)/profit before tax to net cash flows from operating activities:			
(Loss)/Profit before tax		**(2,214)**	2,615
Adjustments for:			
– Non-cash items	5	**303**	(1,237)
– Changes in operating assets and liabilities	5	**1,530**	(6,095)
– Tax paid		**—**	—
Net cash used in operating activities		**(381)**	(4,717)
Cash flows from investing activities			
Investment in subsidiaries		**(71,500)**	(72,000)
Debt securities		**(75,000)**	—
Proceeds from disposal of a subsidiary net of costs to sell		**—**	1,567
Net cash used in investing activities		**(146,500)**	(70,433)
Cash flows from financing activities			
Shares issued	9	**50,264**	60,172
Cost of shares issued	9	**(310)**	(2,400)
Proceeds from issuance of subordinated liabilities	8	**75,000**	—
Costs related to the issuance of subordinated liabilities		**(332)**	
Issuance of warrants		**25,441**	—
Change in non-trading amounts due to and from other Group undertakings	6	**(4,410)**	16,896
Net cash generated from financing activities		**145,653**	74,668
Net (decrease)/increase in cash and cash equivalents		**(1,228)**	(482)
Cash and cash equivalents at start of year		**2,303**	2,785
Cash and cash equivalents at end of year		**1,075**	2,303
Loss/(profit) before tax includes:			
Interest received		**296**	791
Interest paid		**—**	—

The accompanying accounting policies and notes on pages 79 to 86 are an integral part of the financial statements.

Notes to the Company financial statements

1. Basis of preparation and material accounting policies

Overview

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

1.1 General information

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

1.2 Basis of preparation

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

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

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

1.3 Going concern

The directors consider that it is appropriate to continue to adopt the going concern basis of accounting in preparing the parent company financial statements. In reaching this assessment, the directors have considered projections for the company's capital and funding position, statement of financial position (balance sheet), profitability, cash flows, as well as other principal risks disclosed in the strategic report. The Company's capital and liquidity plans, including alternative scenarios such as inflation remaining at similar or higher levels for longer than current expectations, and further increases to interest rates, have been reviewed by the directors. When preparing the forecasts, the Group 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 from the date of authorisation of these financial statements.

1.4 Functional and presentational currency

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

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

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

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

1.5 Segmental reporting

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

1.6 Cash flows statement

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

2. Independent auditors' fees

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

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

3. Directors' remuneration

The Company had no employees in 2023 (2022: nil). Directors are paid via other Group entities as detailed in note 7 to the consolidated financial statements.

4. Financial instruments

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

31 December 2023	**FVTPL £000**	**FVOCI £000**	**Amortised cost £000**	**Total £000**
Cash and balances with other banks	**—**	**—**	**1,075**	**1,075**
Amounts due from other Group undertakings	**—**	**—**	**4,516**	**4,516**
Debt securities	**—**	**—**	**78,817**	**78,817**
Other assets	**—**	**—**	**43**	**43**
Total financial assets	**—**	**—**	**84,451**	**84,451**
Derivatives financial instruments	**792**	**—**	**—**	**792**
Subordinated liabilities	**—**	**—**	**78,485**	**78,485**
Other liabilities	**—**	**—**	**154**	**154**
Total financial liabilities	**792**	**—**	**78,639**	**79,431**

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

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

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

In June 2023, the terms of the outstanding warrants relating to the March 2020 issuance were modified such that they were reclassified to equity. Refer to note 31 within the consolidated financial statements for further details.

5. Cash flow information

5.1 Cash generated from operations

	Notes	**2023 £000**	2022 £000
Adjustments for non-cash items:			
– Impairment of investment in subsidiaries	7	**—**	—
– Gain on sale of investment in subsidiaries, net of contingent consideration	7	**—**	1,180
– Change in fair value through profit or loss		**302**	(2,431)
– Interest expense on subordinated debt		**3,817**	—
– Interest income on subordinated debt		**(3,817)**	—
– Other non-cash items		**1**	14
Total adjustments for non-cash items		**303**	(1,237)
Changes in operating assets and liabilities:			
– Prepayments and accrued income		**2**	(47)
– Accruals		**35**	(6,598)
– Intercompany trading balances		**18**	(70)
– Other assets		**1,316**	1,036
– Other liabilities		**159**	(416)
Total changes in operating assets and liabilities		**1,530**	(6,095)

6. Amounts due to and from other Group undertakings

Intercompany balances are repayable on demand.

2023	**Income £000**	**Expenditure £000**	**Amounts due from related parties £000**	**Amounts due to related parties £000**
Zopa Bank Limited – trading balances	**443**	**415**	**—**	**18**
Zopa Bank Limited – intercompany loan	**201**	**—**	**16**	**—**
Zopa Embedded Finance – intercompany loan	**—**	**—**	**4,500**	**—**
Total	**644**	**415**	**4,516**	**18**

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

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

7. Investment in subsidiaries

Accounting policy & commentary

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

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

Throughout 2023 the Company had a 100% interest in the total ordinary share capital of Zopa Bank Limited, a trading company incorporated in the UK. The registered office for Zopa Bank Limited is 1st Floor, Cottons Centre, 47–49 Tooley Street, London, England, SE1 2QG. Individual financial statements for Zopa Bank Limited (company number 10627575) can be obtained from Companies House. All subsidiary undertakings are included in the consolidated financial statements.

On 18 January 2023, Zopa Embedded Finance (ZEF) was incorporated in which the Company had a 100% interest in the total ordinary share capital. The capital injection by the Company was used by ZEF to acquire the assets of Rematch Credit Limited, a prominent point-of-sale lender in the UK. This acquisition positions the Group to enhance its presence in the point-of-sale and embedded finance market. Refer to note 37 of the consolidated financial statements for further information.

	Zopa Bank £000	Zopa Limited £000	Zopa Embedded Finance £000	Total £000
Balance at 1 January 2022	353,880	2,747	—	356,627
Share purchase	72,000	—	—	72,000
Capital contribution for share-based payments	1,341	—	—	1,341
Disposal of investment in subsidiaries	—	(2,747)	—	(2,747)
Balance at 31 December 2022	427,221	—	—	427,221
Balance at 1 January 2023	**427,221**	**—**	**—**	**427,221**
Share purchase	**65,000**	**—**	**6,500**	**71,500**
Capital contribution for share-based payments	**976**	**—**	**—**	**976**
Balance at 31 December 2023	**493,197**	**—**	**6,500**	**499,697**

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

Details of the sale of subsidiary

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

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

8. Subordinated liabilities

	2023 £000	2022 £000
Fixed Rate Reset Subordinated Tier 2 Notes due 2033	**75,000**	—
Accrued interest	**3,485**	—
Total subordinated liabilities	**78,485**	—

The Company has issued £75 million of fixed rate reset subordinated Tier 2 notes in issuance (25 August 2023: £75 million). 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 Company 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.

On the same date of the issuance the Tier 2 notes, the Company used the proceeds to invest in the £75 million of fixed rate reset subordinated Tier 2 notes issued by Zopa Bank, its wholly-owned subsidiary. The terms of the Tier 2 notes issued by Zopa Bank closely replicate that of the Tier 2 notes issued by the Company. This investment is presented as Debt Securities in the statement of financial position.

9. Called-up share capital and share premium
Refer to note 28 within the consolidated financial statements, which reflects Zopa Group Limited’s share capital and share premium.

10. Other reserves

	Share schemes £000	Merger reserve £000	Capital redemption reserve £000	Treasury shares £000	Warrant Reserve £000	Total £000
Balance as at 1 January 2022	7,699	61,242	9	(84)	—	68,866
Share options	1,341	—	—	—	—	1,341
Net repurchases of own shares	—	—	—	(16)	—	(16)
Net movement in JSOP loans	—	—	—	38	—	38
Net movement in notional value of EMI loans	—	—	—	1	—	1
Balance as at 31 December 2022	9,040	61,242	9	(61)	—	70,230
Balance as at 1 January 2023	**9,040**	**61,242**	**9**	**(61)**	**—**	**70,230**
Share options	**976**	**—**	**—**	**—**	**—**	**976**
Net movement in JSOP loans	**—**	**—**	**—**	**2**	**—**	**2**
Warrants issuance	**—**	**—**	**—**	**—**	**25,441**	**25,441**
Transfer of warrants to equity	**—**	**—**	**—**	**—**	**2,278**	**2,278**
Exercise/lapse of warrants	**—**	**—**	**—**	**—**	**(732)**	**(732)**
Balance as at 31 December 2023	**10,016**	**61,242**	**9**	**(59)**	**26,987**	**98,195**

11. Related parties

Key management personnel

In January 2022, one executive director exercised 100,000 options under the EMI loan arrangement. There were no share-based options exercised by directors in 2023. As at 31 December 2023, one executive director had an EMI loan outstanding for £150k (2022: £150k). Additionally, two executive directors had JSOP loans for £46k (2022: £46k). These loans were used solely to exercise share options and the shares issued are then subject to a call option until the loans are repaid. During the year ended 2022, one executive director sold 100,000 shares. No shares were sold by Directors during 2023.

Other transactions with related parties

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

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

2023	**Income £000**	**Expenditure £000**	**Amounts due from related parties £000**	**Amounts due to related parties £000**
Amount payable to Plata Finance Limited	**—**	**—**	**—**	**154**

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

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

12. Fair value of financial instruments

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 other banks	**1,075**	**1,075**	**—**	**—**	**1,075**
Subordinated asset	**78,817**	**—**	**78,371**	**—**	**78,371**
Amounts due from other Group undertakings	**4,516**	**—**	**—**	**4,516**	**4,516**
Other assets	**43**	**—**	**—**	**43**	**43**
Total financial assets	**84,451**	**1,075**	**78,371**	**4,559**	**84,005**
Derivatives financial instruments	**792**	**—**	**—**	**792**	**792**
Subordinated liabilities	**78,485**	**—**	**78,293**	**—**	**78,293**
Other liabilities	**154**	**—**	**—**	**154**	**154**
Total financial liabilities	**79,431**	**—**	**78,293**	**946**	**79,239**

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

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

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

13. Ultimate controlling party

As at 31 December 2021, IAG Silverstripe Partners LLC (incorporated in the United States of America) was considered to be the ultimate parent and controlling party. However, due to the changes in ownership arising from the fundraise that was completed in February 2022, Zopa Group Limited has no ultimate parent and controlling party as at 31 December 2022 and 2023.

14. Financial risk management

14.1 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.

14.1.1 Maximum and net exposure to credit risk

	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:								
– Other banks	**1,075**	**—**	**1,075**	**—**	**—**	**—**	**—**	**1,075**
Debt securities	**78,817**	**—**	**78,817**	**—**	**—**	**—**	**—**	**78,817**
Amounts due from other Group undertakings	**4,516**	**—**	**4,516**	**—**	**—**	**—**	**—**	**4,516**
Total	**84,408**	**—**	**84,408**	**—**	**—**	**—**	**—**	**84,408**

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

14.2 Market risk

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

14.3 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.

14.3.1 Analysis of encumbered and unencumbered assets

The following table analyses 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.

	Encumbered assets		Unencumbered assets		
2023	**Pledged as collateral £000**	**Other £000**	**Available as collateral** £000	**Other £000**	**Total £000**
Cash and balances with:					
–Other banks	**—**	**—**	**1,075**	**—**	**1,075**
Debt securities	**—**	**—**	**78,817**	**—**	**78,817**
Non-financial assets	**—**	**—**	**—**	**504,844**	**504,844**
Total assets	**—**	**—**	**79,892**	**504,844**	**584,736**

	Encumbered assets		Unencumbered assets		
2022	Pledged as collateral £000	Other £000	Available as collateral £000	Other £000	Total £000
Cash and balances with:					
–Others banks	—	—	2,303	—	2,303
Non-financial assets	—	—	—	429,276	429,276
Total assets	—	—	2,303	429,276	431,579

14.3.2 Contractual maturity

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

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**
Cash and balances with:							
– Other banks	**1,075**	**1,075**	**—**	**—**	**—**	**—**	**—**
Amounts due from other Group undertakings	**4,516**	**—**	**4,516**	**—**	**—**	**—**	**—**
Debt securities	**78,817**	**—**	**—**	**—**	**14,469**	**114,620**	**—**
Other assets	**43**	**—**	**43**	**—**	**—**	**—**	**—**
Total assets	**84,408**	**1,075**	**4,559**	**—**	**14,469**	**114,620**	**—**
Derivative financial instruments	**792**	**—**	**—**	**—**	**—**	**792**	**—**
Amounts due to other Group undertakings	**18**	**18**	**—**	**—**	**—**	**—**	**—**
Subordinated liabilities	**78,485**	**—**	**—**	**—**	**14,469**	**114,620**	**—**
Other liabilities[1]	**154**	**—**	**154**	**—**	**—**	**—**	**—**
Total liabilities	**79,449**	**18**	**154**	**—**	**14,469**	**115,412**	**—**
Liquidity gap	**4,959**	**1,057**	**4,405**	**—**	**—**	**(792)**	**—**
Cumulative liquidity gap	**4,959**	**1,057**	**5,462**	**5,462**	**5,462**	**4,670**	**4,670**

2022	Carrying value £000	Repayable on demand £000	Up to 3 months £000	3-6 months £000	6–12 months £000	1-5 years £000	Over 5 years £000
Cash and balances with:							
– Other banks	2,303	2,303	—	—	—	—	—
Amounts due from other Group undertakings	106	—	106	—	—	—	—
Total assets	2,409	2,303	106	—	—	—	—
Derivative financial instruments	3,775	—	—	—	—	3,775	—
Amounts due to other Group undertakings	—	—	—	—	—	—	—
Other liabilities[1]	—	—	—	—	—	—	—
Total liabilities	3,775	—	—	—	—	3,775	—
Liquidity gap	(1,366)	2,303	106	—	—	(3,775)	—
Cumulative liquidity gap	(1,366)	2,303	2,409	2,409	2,409	(1,366)	(1,366)

1. Other liabilities includes supplier balances.

15. Post balance sheet events

On 1 January 2024, the Company granted 2,755,000 options to the employees of Zopa Group's subsidiaries 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 (UNAUDITED)

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

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

Annualised revenue run rate

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

	2023	2022
	£m	£m
Total revenue in the month of December	**21.3**	16.5
Annualised revenue run rate (December x 12 months)	**255.3**	198.0

Cost of funds

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

		2023	2022
	Note	**£m**	£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 to income ratio

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

		2023	2022
	Notes	**£m**	£m
Operating expenses	5	**90.4**	76.2
Net interest and fee and commission income	2, 3	**217.1**	166.3
Cost to income ratio		**41.6%**	45.8%

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.

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

Loan to deposit ratio

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

		2023	2022
	Notes	**£m**	£m
Loans and advances to customers	15	**2,478.2**	1,938.0
Deposits by customers	24	**3,357.7**	2,922.8
Loan to deposit ratio		**74%**	66%

Net interest margin

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

		2023	2022
	Note	**£m**	£m
Net interest income	2	**214.9**	167.0
Average gross interest-bearing assets		**4,018.9**	2,333.0
Net interest margin		**5.3%**	7.2%

Total revenue

Total net interest income and fee and commission income.

	Notes	**2023**	2022
		£m	£m
Net interest income	2	**214.9**	167.0
Fee and commission income	3	**13.7**	8.6
Total revenue		**228.6**	175.6
Total revenue growth		**30.2%**	148.8%

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

FORWARD-LOOKING STATEMENTS (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. These forward-looking statements speak only as at the date on which they are made. Forward-looking statements are subject to risks, uncertainties and assumptions about the Company, its securities, investments and the environment in which it operates, including, among other things, the development of its business and strategy, any acquisitions, combinations, disposals or other corporate activity undertaken by the Company, trends in its operating industry, changes to customer behaviours, macroeconomic and/or geo-political factors including, but not limited to, the economic repercussions of the UK’s exit from the European Union and the Russia-Ukraine war, the direct and indirect impacts of the COVID-19 pandemic, changes to its Board and/or employee composition, exposures to terrorist activity, IT system failures and its impact on the Company’s business and operations, cybercrime, fraud and pension scheme liabilities, changes to law and/or the policies and practices of any governmental or regulatory authority, market-related risks including changes in inflation, deflation, interest rates and foreign exchange rates, changes in the liquidity, capital, funding and/or asset position and/or credit ratings of the Company, future capital expenditures of the Company, the repercussions of the UK’s exit from the EU (including any change to the UK’s currency), Eurozone instability, and any referendum on Scottish independence.

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