Registered number: 05197592

Zopa Limited

Annual Report and Financial Statements

for the year ended 31 December 2018

Zopa Limited

Annual Report and Financial Statements for the year ended 31 December 2018

Contents

Zopa Limited

Directors and professional advisers

Directors
Jaidev Janardana
Christine Farnish
Zitah McMillan-Ward
Doris Honold

Secretary
Olivia Broderick

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

Strategic report for the year ended 31 December 2018

Principal activities

The principal activity of Zopa Limited ("the Company") is the provision of an online marketplace lending platform which allows individuals in the United Kingdom to access unsecured loans, facilitated by funds provided by both individuals and institutions.

Business Review

Originations surpassed the £1 billion milestone for the first time in 2018 (£1,021m, 2017: £985m). In the first quarter of 2018, the Company became the first consumer peer-to-peer platform to pass the £3 billion milestone in total cumulative originations. In October 2018 it enjoyed a record month, originating £103 million in loans.

These milestones were achieved despite the continued tightening of its credit criteria in response to market conditions. The Company remains Europe's largest consumer lending peer-to-peer platform (Source: Brismo).

In 2018, the Company made further investments in its systems and technology to maintain its competitive advantage. This included continued investment in back-office infrastructure and evolving and enhancing its proprietary IT platform to enable future growth through independent micro-services architecture, and to ensure a more secure service.

In November 2018 the Company transferred 32 staff and sold £1.2m of intangible technology assets that directly related to bank build activities to Zopa Bank Limited. As a result of this transfer, year end headcount fell to 289 (2017: 312).

The Company also sold the Zopa Brand asset to Zopa Bank Limited for £3.3m and entered into an Intra-Group Licence for the future provision of Intellectual Property Rights by Zopa Bank Limited.

The results for the Company show a profit after tax of £1.0m (2017: £1.5m). This reflects the combined impact of: i) higher loan disbursals; ii) sustained investment in systems and technology; iii) gain on sale of assets to Zopa Bank Limited.

Awards

The Company's customer-centric model, culture, and commitment to making money simple and fair remain at the forefront of its offering. This has been repeatedly recognised externally. The Company won a series of awards in 2018, including:

- Moneyfacts Consumer award for Best Customer Service
- Fairer Finance's Gold Ribbon for customer experience
- Moneywise Customer Service award for Most Trusted P2P Platform; and named a Trusted Loans provider for the ninth year in a row.
- British Bank Award for Best Personal Loan Provider and Best Alternative Finance Provider for the second year in a row
- Banking Tech award for Best Use of Innovative or Emerging Tech
- Credit Strategy's Responsible Lender award
- YourMoney's Best online P2P provider
- AltFi award for the best P2P Consumer Platform
- Innovate Lending Award for P2P loans innovation

Strategic report for the year ended 31 December 2018 (continued)

Awards (continued)

The Company was also ranked 80th in 2018's Sunday Times Tech Track 100, a list of Britain's 100 private tech companies with the fastest-growing sales over the past three years. It was Zopa's fifth consecutive year in the list.

The Company's Net Promoter Score (NPS) was 76 in 2018.

Key Performance Indicators ("KPIs")

The overall progress of the Company against its targets is monitored at Board meetings. In addition to specific risks, individual strategic elements are monitored and examined monthly by the Executive Committee and the various Executive sub committees, both by reference to KPIs and a close knowledge of the Company's risk exposures. Performance during the year, together with prior year comparatives, is summarised below:

	Year ended 31 December 2018	Year ended 31 December 2017	Comments
Revenue	£47,584k	£46,488k	Revenue relates to interest received from customers, services provided to other group entities, and fees earned on their online marketplace lending platform. The increase from prior period is largely due to higher revenue from intercompany services provided.
Cost of Sales	£4,311k	£10,331k	Cost of Sales includes credit rating, identification and Safeguard costs. The sharp decrease from prior year is due to reduced spending on Safeguard.
Administrative Expenses	£38,078k	£25,315k	Administrative expenses include costs of running the business such as staff costs, IT costs, marketing expenses, premises, depreciation and amortisation. The rise from prior year is due to increased expenses incurred on group activities, which were recharged as part of revenue, and growth of the Company.

Strategic report for the year ended 31 December 2018 (continued)

Gain on disposal of intangible assets	£3,774k	-	Gain on disposal of intangible assets includes the Zopa Brand and intangible technology assets related to building a bank sold to Zopa Bank Limited.
Trade and other payables	£6,129k	£11,454k	Trade and other payables include trade creditors, amounts owed to group undertakings, other taxation and social security, other creditors and accruals and deferred income. The decrease from prior year is from a reduction in intercompany payables.

Financial Performance

Gross Profit has increased by 20% over the prior year, largely due to a sharp decrease in Cost of Sales. The main driver for this decrease is through the reduction of spend in the Safeguard product, which closed for new loans in 2017. Administrative expenses have increased due to a higher activity relating to intercompany operations; these have subsequently been recharged to other companies in the Group and this is reflected the revenues figure. In November 2018 the Company sold the Zopa brand and intangible technology assets related to bank build to Zopa Bank Limited for £3.8m. The balance sheet of the Company has remained stable since 2017, as it continues to leverage its technology to support organic growth.

Plans for the future

The Company's key priority for 2019 is to further grow its customer base and new lending, funded by growth in retail and institutional investors.

The Company's investment in technology and infrastructure will continue in 2019, with a continued focus on automation to ensure an increasingly seamless experience for customers. The Company aims to continue offering exceptional levels of customer support and will ensure that its customer-facing teams are appropriately resourced to allow this as the business grows.

The Company expects to transfer the significant majority of remaining staff and technology assets to Zopa Bank Limited business in 2019, the Company will then receive these services from Zopa Bank Limited under an Intra-Group Outsourcing Agreement.

Strategic report for the year ended 31 December 2018 (continued)

Business environment

Consumer demand for credit continues to be healthy, and consumers continue to shift towards digital channels, with more of them looking for alternatives to their banks on comparison sites. The Company benefits from this trend owing to its strong digital offering and seamless loan application process.

The Company continues to monitor consumer credit conditions. Default levels appear to be normalising following the historic lows observed in recent years. As a result, and in line with its commitment to prudent risk management, the Company tightened its acceptance criteria in 2018 and continues to monitor trends closely.

Principal risks and uncertainties

The principal risks and uncertainties that the Company faces include, operational risk, financial crime, service disruption and conduct risk. The Company's management of financial risk is detailed in note 3 to the financial statements.

The Company continues to have a prudent and proactive approach towards risk management. Key aspects of this approach include:

- Having a culture that puts the customer first and seeks to provide them with better value, better service and thus better outcomes;
- Strengthening our systems infrastructure to ensure it can recover quickly and continue operating in the event of disruption;
- Attracting the best talent possible;
- Continually reviewing product performance, service levels and the macro-economic environment;
- Creating and maintaining appropriate processes and controls for robust governance while maintaining agility to react to adverse changes; and
- Maintaining close engagement in public policy formulation with respect to the financial finance sector.

The Directors believe that the Company is well positioned to continue to provide great value and service to its customers.

On behalf of the Board,

Jaidev Janardana
Director
12th April 2019

Directors' report for the year ended 31 December 2018

The Directors present the Annual Report and the audited financial statements of the Company for the year ended 31 December 2018. The financial performance and future plans for the Company are included in the relevant sections of the Strategic report. The Directors do not recommend the payment of a dividend in the current year (2017: £nil).

Directors

The Directors who held office during the year and up to the date of the approval of these financial statements, unless otherwise noted, are listed below:

Giles Andrews	(resigned 14th October 2018)
Greg Jackson	(resigned 22nd January 2018)
Jaidev Janardana	
Christine Farnish (Chairperson)	(appointed 4th May 2018)
Zitah McMillan-Ward	(appointed 13th September 2018)
Doris Honold	(appointed 30th January 2019)

Going concern

The financial statements have been prepared on a going concern basis, as the Directors are satisfied that the Company has the resources to continue business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources. The Company's capital and liquidity plans have been reviewed by the Directors. The Company's forecasts and projections show that it will be able to operate at adequate levels of both liquidity and capital for the foreseeable future.

Employee involvement

Employee engagement is one of the Company's key objectives and Managers are assessed against the engagement scores of their teams. We share information regularly with all staff via weekly all-hands meetings, have Q&A sessions with senior leaders on an anonymous basis, distribute newsletters, offer lunch and learns around the business, and various other inclusive meetings. Zopa's compensation structure is tied to the Company's performance, ensuring that the progress of the Company is shared with employees on a routine basis. Key staff members also partake in Group share ownership plans, with equity interests vesting over a period of time. This ensures that employees are fully invested in the development of the business, and remain engaged.

Donations

The Company made no political donations in 2018 (2017: nil).

Disabled employees

At Zopa we believe in creating an inclusive working environment. Our job adverts clearly state that we do not discriminate on the basis of disability (or on any other grounds) and will in the future be asking applicants if we need to make any special adjustments for them at interview stage. Zopa does not currently employ anybody with a disclosed disability, although we conduct regular surveys asking staff to disclose any disability should they wish to do so. If someone does highlight a specific need then Zopa will of course, in all reasonable ways, find a solution to offer the best working environment for the needs of that individual. In addition, our offices are fully wheelchair accessible.

Directors' report for the year ended 31 December 2018 (continued)

Management of financial risk

The Company's management of financial risk is detailed in note 3 to the financial statements.

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

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

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

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

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

Statement of disclosure of information to auditors

In the case of each Director in office at the date the Directors' report is approved:

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

Directors' report for the year ended 31 December 2018 (continued)

Directors' indemnities

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

Independent auditors

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

The financial statements on pages 12 to 41 were approved by the Board of Directors on 28 March 2019 and signed on its behalf by:

Jaidev Janardana
Director
12th April 2019

Independent auditors' report to the members of Zopa Limited

Report on the audit of the financial statements

Opinion

In our opinion, Zopa Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2018; the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Independent auditors' report to the members of Zopa Limited (continued)

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent auditors' report to the members of Zopa Limited (continued)

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Nick Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
12th April 2019

Statement of comprehensive income for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Revenue	4	47,584	46,488
Cost of sales		(4,311)	(10,331)
Gross profit		**43,273**	**36,157**
Distribution expenses		(8,813)	(10,746)
Administrative expenses	5	(38,078)	(25,152)
Operating (loss)/ profit	6	**(3,618)**	**259**
Other interest receivable and similar income	7	10	16
Gain on disposal of intangible assets		3,774	-
Credit impairment losses	3	(21)	(163)
Profit before taxation		**145**	**112**
Taxation	10	839	1,342
Profit for the year		**984**	**1,454**
Other comprehensive income		-	-
Total comprehensive income		**984**	**1,454**

The notes on pages 16-41 form part of these financial statements.

Zopa Limited

Statement of financial position as at 31 December 2018

	Note	2018	2017
		£000	£000
Non-current assets			
Property, plant and equipment	11	1,704	1,634
Intangible assets	12	5,120	3,467
Loans and receivables	13	2,156	2,549
		8,980	**7,650**
Current assets			
Trade, loans and other receivables	3	9,858	8,954
Current tax asset		1,511	1,111
Cash at bank		3,939	7,938
		15,308	**18,003**
Total assets		**24,288**	**25,653**
Current liabilities			
Trade and other payables	14	(6,129)	(11,454)
Non-current liabilities			
Loans from group undertakings		(2,000)	-
Total liabilities		**(8,129)**	**(11,454)**
Net assets		**16,159**	**14,199**
Equity			
Share capital	16	200	200
Share premium		5,816	5,816
Other reserves		44,781	43,716
Accumulated losses		(34,638)	(35,533)
Total equity		**16,159**	**14,199**

The notes on pages 16-41 form part of these financial statements.

The financial statements of Zopa Limited (Registered number 05197592) were approved by the Directors on 28th March 2019 and were signed on its behalf by:

Jaidev Janardana
Director
12th April 2019

Statement of changes in equity for the year ended 31 December 2018

	Share capital £000	Share premium £000	Other reserves £000	Accumulated losses £000	Total Equity £000
Balance as at 1 January 2017	**200**	**5,816**	**42,668**	**(36,987)**	**11,697**
Profit for the year	-	-	-	1,454	1,454
Total comprehensive income	**-**	**-**	**-**	**1,454**	**1,454**
Transactions with owners					
Share based payment charge	-	-	1,048	-	1,048
Total transactions with owners	**-**	**-**	**1,048**	**-**	**1,048**
Balance as at 31 December 2017	**200**	**5,816**	**43,716**	**(35,533)**	**14,199**
Changes on initial application of new accounting standards	-	-	-	(89)	(89)
Balance as at 1 January 2018	**200**	**5,816**	**43,716**	**(35,622)**	**14,110**
Profit for the year	-	-	-	984	984
Total comprehensive income	**-**	**-**	**-**	**984**	**984**
Transactions with owners					
Share based payment charge	-	-	1,065	-	1,065
Total transactions with owners	**-**	**-**	**1,065**	**-**	**1,065**
Balance as at 31 December 2018	**200**	**5,816**	**44,781**	**(34,638)**	**16,159**

Statement of cash flows for the year ended 31 December 2018

	Note	2018	2017
		£000	£000
Cash flows from operating activities			
Cash (used in)/ generated from operations	15	(1,047)	3,407
Decrease / (increase) of loans and receivables		281	(1,340)
Income taxes received		441	231
Net cash (used in)/generated from operating activities		**(325)**	**2,298**
Cash flows from investing activities			
Additions to property, plant and equipment	11	(1,096)	(1,050)
Additions to intangible assets	12	(4,588)	(3,127)
Proceeds from disposal of non-current assets		4,815	-
Interest received		10	16
Loan provided to other group undertakings		(4,815)	-
Net cash used in investing activities		**(5,674)**	**(4,161)**
Cash flows from financing activities			
Loan received from Parent		2,000	-
Net decrease in cash at bank		**(3,999)**	**(1,863)**
Cash at bank at 1 January		7,938	9,801
Cash at bank at 31 December		**3,939**	**7,938**

The notes on pages 16-41 form part of these financial statements.

Notes to the financial statements for the year ended 31 December 2018

1 General information

The Company is incorporated and domiciled in United Kingdom under the Companies Act 2006. The Company is a private company limited by shares. The address of the registered office is detailed on page 1, and the principal activities of the Company are disclosed in the Strategic report on page 2.

2 Principal accounting policies

Basis of preparation
These financial statements are presented in GB Pound Sterling (£), rounded to the nearest thousand, and in conformity with applicable United Kingdom laws and regulations. They are prepared in accordance with IFRS as adopted by the EU and interpretations issued by the IFRS Interpretations Committee and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements contain information about Zopa Limited as an individual Company and do not contain consolidated financial information as the parent of a group. The Company is exempt under sections 402 and 405 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as its only subsidiary undertaking is not material. Further, under Section 401 of the Companies Act 2006, Zopa Limited is exempt from preparing consolidated financial statements as consolidated financial statements of all group entities are prepared by the ultimate parent, Zopa Group Limited.

The financial statements have been prepared under the historical cost convention and as per the Directors' Report on a going concern basis. The principal accounting policies, which have been consistently applied, are set out below.

New and amended standards adopted by the Company

<u>IFRS 9 Financial Instruments</u>
The Company has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Company did not early adopt any of the IFRS 9 requirements in previous periods.

As permitted by the transitional provisions of IFRS 9, the Company has elected not to restate comparative figures for 2017. Adjustments to the carrying value of financial assets arising from the adoption of IFRS 9 were recognised in retained earnings as at 1 January 2018, the date of initial application.

The adoption of IFRS 9 has resulted in changes to the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

Notes to the financial statements for the year ended 31 December 2018 (continued)

2 Principal accounting policies (continued)

Set out below are disclosures relating to the impact of adopting IFRS 9 on the Company.

a. Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as below:

	IAS 39		IFRS 9	
	Measurement category	Carrying amount	Measurement category	Carrying amount
Financial assets		£000		£000
Loans and advances	Amortised cost	6,761	Amortised cost	6,672
Trade and other receivables	Amortised cost	4,722	Amortised cost	4,722
Cash at bank	Amortised cost	7,938	Amortised cost	7,938

b. Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018.

	IAS 39 Carrying amount	Remeasurements	IFRS 9 Carrying amount
Amortised cost	31 December 2017		1 January 2018
	£000	£000	£000
Cash at bank			
Opening balance under IAS 39 and closing balance under IFRS 9	7,938	-	7,938
Loans and advances to customers			
Opening balance under IAS 39	1,172		
Remeasurement: ECL allowance		(89)	
Closing balance under IFRS 9			1,083
Loans to group undertakings			
Opening balance under IAS 39 and closing balance under IFRS 9	5,589	-	5,589
Trade and other receivables			
Opening balance under IAS 39 and closing balance under IFRS 9	4,722	-	4,722

Notes to the financial statements for the year ended 31 December 2018 (continued)

2 Principal accounting policies (continued)

c. Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018.

	Loan loss allowance under IAS 39 £000	Reclassification £000	Remeasurement £000	Loan loss allowance under IFRS 9 £000
Loans	163	-	89	252

IFRS 15 Revenue from contracts with customers
The Standard sets out at what point and how revenue is recognised and also requires enhanced disclosures. Revenue contracts should be recognised in accordance with a single, principles based five-step plan. The Standard is effective for accounting periods beginning on or after 1 January 2018. IFRS 15 provides a principals-based approach for revenue recognition and introduces the concept of recognising revenue for performance obligations as they are satisfied. The Company adopted the standard on 1 January 2018, adoption had no significant effect on the financial statements.

New standards, amendments and interpretations issued but not effective until the financial year beginning 1 January 2019 and not early adopted

Annual improvements to IFRS 2015-2017 Cycle
The issues addressed in this cycle cover IFRS 3, IFRS 11, IFRS 12 and IAS 23. The amendments are effective for annual periods beginning on or after 1 January 2019 and there is no financial impact of these amendments at present.

IFRS 16 Leases
The Standard assesses the use of off-balance sheet leases, bringing most lessee leases on-balance sheet and eliminating the distinction between operating and finance leases. The Standard is effective for periods beginning on or after 1 January 2019.

The Company has commenced its review of all the above changes and fully expect to adopt the required standards in a timely fashion.

At initial adoption on 1 January 2019, the Company will be required to recognise a lease liability, and a corresponding right of use asset, in respect of leases of property. These amounts will be measured by discounting the future lease payments over the lease term, or earlier if management expect to exit the lease early. The adoption of IFRS 16 is expected to result in the recognition of a lease liability of £9.2m, a related right of use asset of £8.5m and a reduction in other liabilities of £0.4m. This is expected to result in a reduction of £0.2m to equity. Subsequent to the initial adoption, the effect of IFRS 16 on the statement of comprehensive income recognition profile of leases is not expected to be material.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

Notes to the financial statements for the year ended 31 December 2018 (continued)

2 Principal accounting policies (continued)

Revenue
Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of rebates and amounts collected on behalf of third parties.

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

The Company's main types of revenue arise from the principal activity and represent the commission charged to borrowers and lenders for the use of the on-line lending and borrowing exchange. Revenue from servicing fees is recognised over the term of the loan. The borrower fee is recognised when the borrower accepts the loan. The Company also generates Servicing fees for services provided to other Zopa group companies, and from interest on loans.

Intercompany revenue
The Company provides supportive services to other entities in the Group. The consideration is measured at arm's length, using the "cost plus" method, where the mark-up is benchmarked by reference to similar independent service providers. Revenue is recognised as the services are provided.

Interest Income
Interest income is recognised on an effective interest rate ("EIR") basis. The EIR is the rate that, at the inception of the financial asset, exactly discounts expected future cash payments and receipts over the expected life of the instrument back to the initial carrying amount. When calculating the EIR, the Company estimates cashflows considering all contractual terms of the instrument but does not consider the assets' future 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 income statement includes interest on financial assets measured at amortised cost calculated on an EIR basis.

Property, plant and equipment and depreciation
Property, plant and equipment are stated as 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.

Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values on a straight-line basis over the expected useful economic lives of the assets concerned being:

Office equipment	3 years
Fixtures and fittings	3 years

Notes to the financial statements for the year ended 31 December 2018 (continued)

2 Principal accounting policies (continued)

Residual values and useful economic lives for tangible assets are reviewed regularly and revised when necessary.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are classified as held-to-collect. They are initially recognised at fair value and subsequently 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 impairment provisions for incurred losses. Loans and receivables mainly comprise loans and advances to banks and customers.

Impairment
The estimation of credit risk of loans and advances for credit risk management purposes is complex and requires the use of models, as exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Company measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality. A financial instrument that is not credit impaired on initial recognition is classified as in Stage 1 and has its credit risk continually monitored by the Company. If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed credit impaired. If the financial instrument is classified as credit impaired, the financial instrument is then moved to Stage 3. The key judgements and assumptions adopted by the Company in addressing the requirements of the standard are discussed below:

Significant increase in credit risk (SICR) - Movement from Stage 1 to Stage 2
The Company considers a financial instrument to have experienced a SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

Quantitative Criteria
The remaining lifetime PD at the reporting date has increased, compared to the residual lifetime PD expected when the exposure was first recognised. Loans that have a revised PD ratio of more than or equal to the PD ratio threshold as determined by the Company are deemed to have suffered a SICR. The revised PD ratio is the cumulative adjusted PD over the cumulative expected PD at origination. It reflects the probabilities of default for the remaining life of a loan. The cumulative adjusted PD is the weighted average PD across different economic scenarios.

Notes to the financial statements for the year ended 31 December 2018 (continued)

2 Principal accounting policies (continued)

Qualitative Criteria
- The borrower has agreed to an alternative payment plan
- The borrower has previously been in arrears in the last 12 months

Backstop
A backstop is applied, and the financial instrument considered to have experienced a SICR if the borrower is more than 30 days past due on its contractual payments.

Definition of default and credit impaired assets - Movement from Stage 2 to Stage 3
The Company defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative Criteria
The borrower is more than more than 90 days past due for unsecured personal loans.

Qualitative Criteria
The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where the borrower is subject to bankruptcy proceedings, distressed restructuring, is deceased, or similar circumstances.

All financial instruments in default are considered to be in Stage 3.

No loans are currently subject to permanent forbearance arrangements and all loans and advances to customers are originated within the United Kingdom.

Intangible assets and amortisation
Purchased intangibles
This includes technology assets such as IT licenses.

Internally generated
Intangible assets relate to development costs, including employee costs, and are recognised if all of 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 administration expenses in the Statement of Comprehensive Income once the asset is brought into revenue-generating use. The residual value of intangible assets is assumed to be zero.

Notes to the financial statements for the year ended 31 December 2018 (continued)

2 Principal accounting policies (continued)

Intangible assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The useful life of purchased and internally generated intangible assets is considered to be 3 years.

Assets leased from third parties
Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The company did not have any finance leases as a lessee recognised on its Balance Sheet as at 31 December 2018 (2017: nil).

Cash at bank
For the purpose of presentation in the statement of cash flows, cash at bank includes cash on hand and deposits held at call with financial institutions. Client assets in the form of loans and client money are not recognised in the statement of financial position.

Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Impairment is recognised through the income statement.

Trade and other payables
These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost.

Provisions
Provisions for legal claims, service warranties and make good obligations are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Notes to the financial statements for the year ended 31 December 2018 (continued)

2 Principal accounting policies (continued)

Income tax

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The Company may be 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. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

Notes to the financial statements for the year ended 31 December 2018 (continued)

2 Principal accounting policies (continued)

Employee benefits
Employee benefits are wages and salaries, including 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. Liabilities are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

The liabilities are presented as accruals and deferred income in the statement of financial position.

Pension obligations
For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. It has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Share-based payments
Equity-settled share-based compensation benefits are provided to employees of the Group's subsidiaries via options granted under the 2005 Stock Incentive Plan, 2015 Stock Incentive Plan, the Zopa Group Limited Company Share Option Plan and the Zopa Group Limited Joint Share Option Plan. They are all equity settled by the parent company, Zopa Group Limited.

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.

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 period, 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.

Contributed equity
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Critical accounting judgements and estimates
The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Notes to the financial statements for the year ended 31 December 2018 (continued)

2 Principal accounting policies (continued)

Critical accounting judgements and estimates (continued)

Share-based payments

Significant estimates and judgements include the estimation of the fair value of share-based payments. The Company has used the Black Scholes valuation model to determine the fair value of share-based payments.
The significant assumptions used in the Black Scholes model were:

	2018	**2017**
Expected volatility	35%	35%
Expected life (in years)	10	10
Risk free rate	1.2-1.6%	2%

Safeguard fees

Management has assessed the appropriate revenue recognition treatment for Safeguard fees, specifically in relation to agent versus principle and subsequent presentation on a gross or net basis. Based on the facts and circumstances, and contractual arrangements, it is the judgement of management that it is appropriate to disclose these fees on a gross basis. The Safeguard product was closed to new loans in 2017.

Measurement of the expected credit loss allowance

The measurement of the expected credit loss (ECL) allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. See further details in note 3.

3 Management of financial risks

In the course of its business, the Company is exposed to a variety of financial risks such as credit risk, liquidity risk and market risk (including interest rate risk). The Company's overall risk management programme seeks to minimise potential adverse effects on its financial performance.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. This is managed by ensuring that there is always sufficient liquidity to meet liabilities when due, both under normal and stressed conditions. The liquidity position is monitored on an ongoing basis.

Liquidity buffer

	2018	2017
	£000	£000
Unencumbered cash and bank balances	3,939	7,938
Total liquidity buffer	**3,939**	**7,938**

Notes to the financial statements for the year ended 31 December 2018 (continued)

3 Management of financial risks (continued)

The table below presents the contractual residual maturities of the assets and liabilities on the balance sheet:

Liabilities 31 December 2018	Up to 1 month £000	Up to 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Amounts owed to other group undertakings	276	-	-	2,000	-	**2,276**
Trade creditors	4	-	-	-	-	**4**
Other liabilities	5,527	145	-	177	-	**5,849**
Total	**5,807**	**145**	**-**	**2,177**	**-**	**8,129**

Assets 31 December 2018	Up to 1 month £000	Up to 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Cash at bank	3,939	-	-	-	-	**3,939**
Amounts due from other group undertakings	1,734	-	4,826	-	-	**6,560**
Loans and advances to customers	1	10	4	527	-	**542**
Tax asset	-	-	1,511	-	-	**1,511**
Other assets	1,897	932	611	8,296	-	**11,736**
Total	**7,571**	**942**	**6,952**	**8,823**	**-**	**24,288**

The following is an analysis of gross undiscounted contractual cash flows payable under financial liabilities. The analysis has been prepared on the basis of the earliest date at which contractual repayments may take place.

Liabilities 31 December 2018	Up to 1 month £000	Up to 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Amounts owed to other group undertakings	276	14	41	2,220	-	**2,551**
Trade creditors	4	-	-	-	-	**4**
Other liabilities	5,527	145	-	177	-	**5,849**
Total	**5,807**	**159**	**41**	**2,397**	**-**	**8,404**

Notes to the financial statements for the year ended 31 December 2018 (continued)

3 Management of financial risks (continued)

Credit Risk

Credit risk arises from loans and other receivables, trade receivables and cash at bank and Investment securities. The Company has implemented certain operational processes and policies to address its credit related risks around counterparty risk and transactional bad debt. The credit quality of the financial assets has been assessed and expected credit losses recognised.

For cash at bank, the financial institutions considered need to have a credit rating above BBB-. The financial stability of partners is assessed prior to and at regular intervals during the relationship. Where available external credit rating of partners is monitored.

<u>Maximum exposure to credit risk</u>

The following table contains an analysis of the Company's maximum exposure to credit risk on financial assets.

	2018	2017
	£000	£000
Cash at bank	3,939	7,938
Loans and advances to customers	815	1,424
Other financial assets	4,934	3,858
Loans to Group undertakings	6,560	5,589
Gross credit risk exposure	**16,248**	**18,809**
Less: allowance for credit losses	(273)	(252)
Net credit risk exposure	**15,975**	**18,557**

Notes to the financial statements for the year ended 31 December 2018 (continued)

3 Management of financial risks (continued)

Credit Risk (continued)

Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors. The following tables explain the changes in the loss allowance between the beginning and the end of the annual period.

Loss allowance	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£000	**£000**	**£000**	**£000**
Loss allowance at 1 January 2018	**50**	**108**	**94**	**252**
Changes reflected in impairment loss				
Transfer from Stage 1 to Stage 2	(25)	96	-	71
Transfer from Stage 2 to Stage 1	26	(67)	-	(41)
Changes in PD/ LGD/ EAD	(18)	10	7	(1)
Discount Unwind	-	-	5	5
Derecognition (maturity) of financial assets	(10)	(3)	-	(13)
Net P&L charge during the period	**(27)**	**36**	**12**	**21**
Other movements with no Profit and Loss impact				
Transfer from Stage 2 to Stage 3	-	(94)	94	-
Loss allowance at 31 December 2018	**23**	**50**	**200**	**273**

Notes to the financial statements for the year ended 31 December 2018 (continued)

3 Management of financial risks (continued)

Credit Risk (continued)

The following table explains changes in the gross carrying amount of the portfolio of loans to help explain their significance to the changes in the loss allowance for the same portfolio of loans discussed above.

Gross Loans	Stage 1	Stage 2	Stage 3	Total
	£000	£000	£000	£000
Gross carrying amount at 1 January 2018	**938**	**285**	**112**	**1,335**
Repayments/Derecognition of financial assets	(455)	(55)	(1)	**(511)**
Transfer from Stage 1 to Stage 2	(274)	270	-	(4)
Transfer from Stage 2 to Stage 1	236	(241)	-	(5)
Transfer from Stage 2 to Stage 3	-	(131)	131	-
Gross carrying amount at 31 December 2018	**445**	**128**	**242**	**815**

Economic Scenarios

In its forward-looking adjustments for impairment provision calculations, the Company adopted three economic scenarios. These scenarios represent the Company's view on future economic conditions and how they are expected to impact the credit performance of its portfolio.

The key macroeconomic indicators identified as drivers for the performance of the Company's credit portfolio are the UK Unemployment Rate and the UK Consumer Debt to Income Ratio. In the interest of adopting unbiased scenarios that maximise the use of independent information, economic scenarios are underpinned by forecasts obtained from a specialist external consultancy, which develops the Base scenario projections based on forecasts published by HM Treasury and the Office for Budget Responsibility (OBR). These externally sourced economic projections are assessed by the Company and management judgment is applied in defining what is used as input into the impairment provision model.

The Base scenario reflects the most likely outcome, corresponding to a 60% probability, while the Company adopts two alternative scenarios: a more optimistic scenario (Upside, with 20% probability) and more pessimistic one (Downside, with 20% probability). The Base scenario incorporates an assumption that credit conditions will worsen over a 5-year horizon, while the Upside scenario considers credit conditions will remain stable over this period. The Downside scenario envisages a more severe worsening than what is expected in the Base scenario. The calculation of impairment provisions reflects the probability-weighted outputs from the three scenarios.

The economic projections used by The Company are updated quarterly and the credit impairment provision model is updated accordingly.

Notes to the financial statements for the year ended 31 December 2018 (continued)

3 Management of financial risks (continued)

Credit Risk (continued)
As of year-end, the economic scenarios adopted by Zopa for calculating credit impairment provisions can be described as follows:

- **Base case scenario:** central forecast, assumes economic growth remains relatively subdued, at around 1.5% in 2019. Unemployment is assumed to remain near 4% in the near term and then rise gradually to 4.6% over the medium term. The Bank of England gradually raises interest rates to ensure inflation remains near the 2% target. This scenario assumes no significant disruption in the process of the UK leaving the EU, where both parties manage to agree on a deal and economic ties remain relatively close.

- **Upside scenario:** assumes that the UK's future relationship with the EU is decided with the clarity required to revive business investment. This could lead to overall economic conditions stabilising, enabling the labour market to sustain the historically low unemployment rates observed in 2018 throughout the medium term. The tight labour market would enable continued gains in real wages, leading to an increase in household income. Positive consumer sentiment would also lead households to take on more debt, however the debt to income ratio would remain stable as debt growth would be offset by gains in household income.

- **Downside scenario:** it reflects a disruptive Brexit but one that avoids the very worst no-deal outcomes. Uncertainty about the long-run trading arrangements persist as the UK and EU enter negotiations for the future economic relationship. Business investment and consumer spending fall, and GDP essentially flatlines in 2019. Households, facing falling living standards, borrow more and debt to income rises. The Bank of England initially raises rates over these worries and then need to defend sterling, but then cuts the Base Rate as combatting rising unemployment - which reaches near 6% in 2021 - becomes a priority.

The forecast for the key metrics used by Zopa in its impairment provision calculation are summarised in the table below:

Scenario	Probability (weight)	5-year peak Unemployment rate	5-year peak Consumer Debt-to-Income ratio
Base case	60%	4.6%	26.3%
Upside	20%	4.1%	24.0%
Downside	20%	5.9%	28.2%

<u>Sensitivity analysis</u>
If the upside scenario were to materialise, the loss allowance as at 31 December 2018, would have been £265k. Conversely, under the downside scenario it would have been £285k.

Notes to the financial statements for the year ended 31 December 2018 (continued)

3 Management of financial risks (continued)

Market risk
Market risk is the risk of a reduction in earnings, value or reserves caused by changes in the prices of financial instruments. The Company's market risk consists primarily of exposure to changes in interest rates. Interest rate risk is the risk that the net value of, or net income arising from, the firm's assets and liabilities is impacted as a result of changes to interest rates. Financial Assets are limited to fixed interest rated income from loans and advances to customers and cash at Bank. The Company did not have any retail deposits as at 31 December 2018. The only source of borrowing relates to inter-company loans from other Group undertakings.

The impact of a two percentage point shift in the interest yield curve is as follows:

	2018
	£000
2% shift up of the yield curve	(29)
2% shift down of the yield curve	29

Capital management
The Company's objective when managing capital is to safeguard its ability to continue as a going concern and to meet the FCA regulatory capital requirements. Financial performance is regularly reviewed by various committees in the business, focusing on the amount of regulatory and working capital needed. This is especially important as the business continues to expand. The process includes the monitoring of FCA returns as well as the annual budget and forecast process from which cashflow and capital assessments and projections are made.

The Company met all external capital requirements during the year and at year-end.

4 Revenue

Revenue and profit on ordinary activities before taxation derive materially from the principal activity and arise wholly in the United Kingdom.

	2018	2017
	£000	£000
Brokerage Fees	23,882	31,639
Servicing Fees	12,982	12,105
Intercompany Recharges	9,158	2,508
Interest income	170	105
Other	1,392	131
	47,584	**46,488**

The reduction in Brokerage Fees is driven by the cessation of Safeguard product, which is also reflected in lower Cost of Sales.

Notes to the financial statements for the year ended 31 December 2018 (continued)

5 Administrative Expenses

	2018	2017
	£000	£000
Staff costs	20,964	16,019
Information Technology	4,096	2,692
Legal and Professional	1,453	1,487
Depreciation and amortisation	2,920	1,652
Recharges from other group undertakings	4,348	-
Office	2,449	2,787
Other	1,848	678
Total administrative expenses	**38,078**	25,315

6 Operating (loss)/ profit

	2018	2017
Services provided by the Company's auditors:	£000	£000
Fees payable to the Company's auditors for the audit of the financial statements	53	52
Fees payable for audit related assurance services	66	78
Fees payable for taxation services	8	5
Fees payable for other assurance services	88	104
Amortisation of intangible assets	1,894	878
Depreciation of owned property, plant and equipment	1,026	774
Operating lease payments	1,903	1,461

7 Other interest receivable and similar income

	2018	2017
	£000	£000
Interest receivable on bank deposits	10	16
	10	**16**

Notes to the financial statements for the year ended 31 December 2018 (continued)

8 Directors' emoluments

Total emoluments in respect of all Directors, who are the only key management personnel were:

	2018	2017
	£000	£000
Remuneration paid to Directors in respect of qualifying services	561	567
Post-employment benefits	11	7
Share-based compensation arrangements	147	308
	719	**882**

Highest paid Director	**2018**	2017
	£000	£000
Remuneration paid to Directors in respect of qualifying services	427	412
Post-employment benefits	9	5
Share-based compensation arrangements	109	264
	545	**681**

The highest paid Director did not exercise any share options during the year.

9 Employee information

The average monthly number of persons (including Directors) employed during the year was:

	2018	2017
By activity:	**Number**	Number
Loan operations and servicing staff	202	80
Administration	123	178
	325	**258**

Employment costs for all the above employees, including Directors, were:

Staff costs	**2018**	2017
	£000	£000
Wages and salaries	17,261	13,325
Social security costs	2,142	1,467
Other pension costs	496	179
Share-based payments	1,065	1,048
	20,964	**16,019**

Notes to the financial statements for the year ended 31 December 2018 (continued)

10 Taxation

	2018 £000	2017 £000
Profit before taxation	145	112
Profit before taxation multiplied by the UK standard corporation tax rate of 19% (2017: 19%)	28	22
Expenses not deductible for tax purposes	426	77
Income not taxable for tax purposes	(727)	-
Losses for which no deferred tax asset is recognised	245	-
Utilisation of brought forward losses	-	(98)
Rate changes	28	
R&D tax credit	(839)	(1,343)
Total tax credit	**(839)**	**(1,342)**

Deferred tax asset	2018 £000 Unrecognised	2017 £000 Unrecognised
Origination and reversal of temporary differences	230	58
Tax losses available in future years	5,219	3,890
Total	**5,449**	**3,948**

The deferred tax assets are not recognised as of 31 December 2018 and will be recognised at such time as it becomes more likely than not that they will be realised in the foreseeable future.

Changes to the UK Corporation Tax rates were substantively enacted as part of the Finance Bill 2015 on 26 October 2015. These included reductions to the main rate of Corporation Tax to 19% from 1 April 2017 and 18% from 1 April 2020. At the Budget 2016 a further reduction from 1 April 2020 to 17% was announced and substantively enacted on 6 September 2016. Deferred taxes at the reporting date have been measured using these expected tax rates and reflected in these statements.

Notes to the financial statements for the year ended 31 December 2018 (continued)

11 Property, plant and equipment

	Office equipment	Fixtures and fittings	Total
	£000	£000	£000
Cost			
At 1 January 2017	1,455	819	**2,274**
Additions	930	120	**1,050**
Disposals	(96)	-	**(96)**
At 31 December 2017	2,289	939	**3,228**
Additions	718	378	**1,096**
At 31 December 2018	**3,007**	**1,317**	**4,324**
Accumulated depreciation			
At 1 January 2017	739	177	**916**
Charge for the financial year	498	276	**774**
Disposals	(96)	-	**(96)**
At 31 December 2017	1,141	453	**1,594**
Charge for the financial year	665	361	**1,026**
At 31 December 2018	**1,806**	**814**	**2,620**
Net book value			
31 December 2018	**1,201**	**503**	**1,704**
31 December 2017	1,148	486	1,634

Notes to the financial statements for the year ended 31 December 2018 (continued)

12 Intangible Assets

	Internally generated £000	Purchased £000	Total £000
Cost			
At 1 January 2017	1,172	185	**1,357**
Additions	2,666	461	**3,127**
At 31 December 2017	3,838	646	**4,484**
Additions	4,588	-	**4,588**
Disposals	(1,041)	-	**(1,041)**
At 31 December 2018	**7,385**	**646**	**8,031**
Accumulated amortisation			
At 1 January 2017	121	18	**139**
Charge for the financial year	715	163	**878**
At 31 December 2017	836	181	**1,017**
Charge for the financial year	1,679	215	**1,894**
At 31 December 2018	**2,515**	**396**	**2,911**
Net book value			
31 December 2018	**4,870**	**250**	**5,120**
31 December 2017	3,002	465	**3,467**

Intangible assets relate to software and databases both purchased and internally generated. Amortisation is recognised within administrative expenses in the Statement of Comprehensive Income.

Notes to the financial statements for the year ended 31 December 2018 (continued)

13 Trade, loans and other receivables

Loans and receivables (non-current)	**2018**	2017
	£000	£000
Rental deposit	1,516	1,250
Loans and advances to customers	526	1,149
Other debtors	20	20
Prepayments	94	130
	2,156	**2,549**

Trade, loans and other receivables (current)	**2018**	2017
	£000	£000
Trade debtors	31	189
Amounts due from group undertakings	6,560	5,589
Other debtors	568	814
Loans and advances to customers	16	23
Season ticket loans	51	43
Prepayments	1,872	1,601
Accrued income	760	695
	9,858	**8,954**

Other debtors principally relate to other deposits and rental deposits due back within 12 months.

14 Trade and other payables

	2018	2017
	£000	£000
Trade creditors	4	1,166
Amounts owed to group undertakings	276	6,001
Other taxation and social security	509	982
Other creditors	524	338
Accruals and deferred income	4,816	2,967
	6,129	**11,454**

Other creditors relates to amounts provided for dilapidations and amounts owed to the defined contribution pension scheme.

Notes to the financial statements for the year ended 31 December 2018 (continued)

15 Cash (used in)/ generated from/ operations

	2018 £000	2017 £000
Profit before taxation	145	112
Adjustments for:		
Depreciation of property, plant and equipment	1,026	774
Interest received	(10)	(16)
Share-based payment charge	1,065	1,048
Amortisation of intangible assets	1,894	878
Gain on disposal of intangible assets	(3,774)	0
Loss allowance	21	152
Changes in working capital:		
Movement in trade and other receivables	3,911	(6,792)
Movement in trade and other payables	(5,325)	7,251
Cash (used in)/generated from operations	**(1,047)**	**3,407**

16 Share capital

	2018 £000	2017 £000
Authorised:		
200,000 ordinary shares of £1 each (2017: 200,000)	**200**	200
Allotted and fully paid:		
199,824 ordinary shares of £1 each (2017: 199,824)	**200**	200

Notes to the financial statements for the year ended 31 December 2018 (continued)

17 Financial commitments

Leases

The Company had total commitments excluding VAT under non-cancellable operating leases, payable as follows:

	2018	2017
Land and buildings	**£ 000**	£ 000
Under 1 year	1,814	1,389
Between 1 and 5 years	7,039	5,555
Over 5 years	-	1,188
Total	**8,853**	**8,132**

Purchase commitments

The Company had total minimum spend commitments excluding VAT, payable as follows:

	2018	2017
Purchase agreements	**£ 000**	£ 000
Under 1 year	443	2,552
Between 1 and 5 years	-	1,991
Total	**443**	**4,543**

18 Company related party transactions

At 31 December 2018 £62k of trade payables is due to the ultimate parent Company, Zopa Group Limited (2017: £6,001k) and £275k is due to Zopa Bank Limited (2017: due from £3,880k). Amounts have been settled in full post year end. Additionally, £1,671k is due from the parent Company, Zopa Holdings Inc. (2017: £1,709k).

A £2,002k loan is due to the ultimate parent Company, Zopa Group Limited. The amounts are still outstanding. The loan from Zopa Group is unsecured, due for repayment on 30th November 2023 and interest is charged at the Bank of England base rate plus 2% margin. A loan of £4,826k is due from group company Zopa Bank Limited. The loan is repayable on 30 November 2019, with an option to extend, and bears interest equal to the Bank of England base rate plus a 2% margin.
The amount is still outstanding.

During the year revenue of £225k was generated from charges made to Zopa Group Limited (2017: £67k) and £8,922k from charges made to Zopa Bank Limited (2017: £2,441k). The Company was charged administrative costs of £4,347k by Zopa Bank Limited (2017: £69k).

There are no related party transactions in relation to key management personnel.

Notes to the financial statements for the year ended 31 December 2018 (continued)

19 Ultimate parent undertaking and controlling party

Zopa Holdings Inc. (incorporated in the U.S.) continues to hold 100% of the issued capital of Zopa Limited at 31 December 2018 and is therefore the immediate parent undertaking. In May 2017 Zopa Group Limited (UK Company number 10624955) acquired 100% of Zopa Holdings Inc. becoming the ultimate parent undertaking. Following this the Directors do not consider there to be one single ultimate controlling party. Zopa Group Limited is the smallest and largest group of undertakings for which consolidated financial statements are prepared and are available from Companies House.

The only subsidiary of Zopa Limited is P2PS Cars Limited, registered address: 1st Floor Cottons Centre, 47-49 Tooley Street, London, England, SE1 2QG. P2PS Cars Limited is a UK Company 100% owned by Zopa Limited. The carrying amount of Zopa Limited's investment in subsidiary is £1 (2017: £1).

20 Share-based payment arrangements

Certain group employees receive equity option instruments (share options) of the ultimate parent as consideration for their services These equity option instruments are granted by Zopa Group Limited. The fair value of the employee services received in exchange for the grant of options is expensed on the equity basis each reporting period, based on the Company's estimate of shares that will eventually vest and the value of the options as at the date of grant. Set out below are the summaries of options granted by Zopa Group under these share option plans.

	Number of options	Weighted Average Exercise Price £
Outstanding options as at 1 January 2018	3,024,362	2.3793
Granted during 2018	1,570,123	4.6196
Exercised during 2018	(209,265)	1.1725
Lapsed during 2018	(421,743)	3.6616
Outstanding options at 31 December 2018	3,963,477	3.1941
Exercisable options at 31 December 2018	1,603,298	1.3982

The share-based payment charge for the year materially represents the value of services provided to the Company by staff either employed directly by the Company or by other Group entities, whom are part of the equity settled plans disclosed above.

Employees of the Company are granted share options by the ultimate Parent company. Employees of the Company also provide services to other entities within the Group and therefore the Share Based Payment charge recorded in the income statement reflects the proportion of the services provided to the Company. The information included in the table above relates to all share options granted by the Parent as it is not practicable to allocate individual options to employees of the Company.

Notes to the financial statements for the year ended 31 December 2018 (continued)

20 Share-based payment arrangements (continued)

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. A Black Scholes option pricing model has been used to calculate the fair value of the options granted in the year.

	2018	2017
Expected volatility	35%	35%
Expected life (in years)	10	10
Risk free rate	1.2-1.6%	2%

The share-based payment charge in the year was £1,065k (2017: £1,048k).