Registered number: 05197592

Zopa Limited

Annual Report and Financial Statements

for the year ended 31 December 2019

Zopa Limited

Zopa Limited

Directors and professional advisers

Directors
Christine Farnish
Zitah McMillan-Ward
Doris Honold
Natasha Wear
Michael Woodburn

Secretary
Oluwaseyi Falusi

Registered office
1st Floor Cottons Centre
47-49 Tooley Street
London
England
SE1 2QG

Registered number
Registered number: 05197592

Bankers
The Royal Bank of Scotland
London Cavendish Square Branch
28 Cavendish Square
London
W1G 0DB

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

Zopa Limited

Strategic report

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 and secured motor vehicle loans (from August 2019), facilitated by funds provided by both individuals and institutions.

Business Review

Originations grew to £1,079m in 2019, surpassing the £1 billion milestone for the second year in succession (2018: £1,021m), whilst the P2P platform served 421,000 customers in 2019. In January 2019, it surpassed £4 billion in total cumulative originations, while in April 2019 it enjoyed a record month, originating £104 million in loans. In December 2019, the Company passed the £5 billion milestone in total cumulative originations, the first consumer peer-to-peer platform to do so. These origination records were achieved against the backdrop of the continued tightening of credit criteria in response to conditions in the consumer credit market.

The Company retains its position as Europe's largest consumer lending peer-to-peer platform. (Source: Brismo)

In 2019, the Company increased investment into its technology and systems to maintain its competitive advantage. For example, the Company strengthened its technology integrations with its price comparison site partners, enabling more customers to benefit from having certainty over price and the likelihood of being approved when applying for a loan. The Company invested in its front-end architecture as part of its preparation for the regulator's new P2P rules, as well as improving the look and feel of its website in order to continue providing its customers with a P2P class-leading online experience.

Awareness of the Company's brand increased by 8 percentage points to 34% largely driven by below the line marketing initiatives and the roll out of its Feelgood Money brand proposition throughout 2019. (Source: Addverve)

The headcount for the Company was 239 in 2019, down from 325 in 2018. This was a result of the Company transferring staff who were focussed on bank build activities to Zopa Bank Limited.

The results of the Company show a profit after tax of £2.7m (2018: £1.0m), driven by higher loan disbursals and sustained investment in technology and systems creating a more efficient business.

Awards

The Company is committed to giving its customers access to simple, fair products that are easy to manage by building a business on honesty, transparency and trust.

This continued commitment has been repeatedly recognised externally and the Company won a series of awards in 2019, including:

- Moneyfacts Consumer award for Personal Loans Provider of the Year (highly commended for Trusted Loans Provider & 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 tenth year in a row
- British Bank Award for Best Personal Loan Provider for the third year in a row
- Listed in Sifted's Top Startups in Europe to follow in 2020
- Ranked 3rd in BusinessCloud's London Tech 50, a list of the capital's most exciting technology companies
- Listed in BusinessCloud's 101 UK FinTech Disrupters
- Ranked 16th on Beauhurst's top 50 Fintech startups and scaleups in the UK
- Being named as one of London's top 10 Fintech companies to work for (Silicon Canal)

Zopa Limited

Strategic report (continued)

The Company was also ranked 571st in the 2019 FT 1000: Europe's Fastest Growing Companies, a list showcasing Europe's 1000 fastest growing businesses by turnover growth. This is the second consecutive year that the Company has been included in the list.

The Company's Net Promoter Score (NPS) was 77 in 2019 (2018:76).

Business environment

The Company continues to monitor consumer credit conditions. As a result of default conditions appearing to normalise following the historic lows seen over the last decade, the Company tightened its acceptance criteria in 2019. This reflects the Company's commitment to prudent risk management.

Consumers are increasingly shifting to use digital channels to shop for financial products including loans and other credit products, with more people looking for alternatives to their traditional bank. The Company continues to benefit from this trend as a result of its seamless application process, strong digital offering, and deep technology integrations with price comparison websites.

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:

£000	Year ended 31 December 2019	Year ended 31 December 2018	Comments
Fee and Commission Income	46,252	38,251	Fee and commission income is the income received from acquiring and servicing loans. The increase was driven by changes in product mix and pricing
Fee and Commission Expense	(12,833)	(14,473)	Fee and commission expense relates to fees paid to third parties for originating loans
Administrative Expenses	(39,663)	(36,722)	Administrative expenses include costs of running the business such as staff costs, IT costs, marketing expenses, premises, intercompany recharges, depreciation and amortisation. The increase from prior year is due to increased costs in relation to services received from other group entities
Total Operating Income	40,263	33,114	Total operating income is the net income received from financial instruments and related fees and commissions, and other income
Profit Before Tax	575	145	Profit before tax is the profit for the year before including any income/expenses in relation to taxes

Zopa Limited

Strategic report (continued)

£000	Year ended 31 December 2019	Year ended 31 December 2018	Comments
Gain/ (Loss) on sale of assets	(7)	3,774	In 2018 a profit of £3.8m was made on assets sold to another group entity, no assets were sold to other group entities in 2019
Total Equity	19,540	16,159	Total Equity is comprised of share capital, reserves and accumulated losses. The increase is driven by the profit after tax in 2019

Plans for the future

In June 2020, the Company transferred the significant majority of remaining staff and technology assets to Zopa Bank Limited. The Company will be receiving these services from Zopa Bank Limited under an Intra-Group Outsourcing Agreement.

The Company's investment in technology will continue in 2020, with a continued focus on automation so that it can provide an even more seamless digital experience for customers.

Section 172 Disclosure

The Company complies with Section 172 of the Companies Act. Throughout 2020, the Board will continue to review and challenge how the Company can continue to improve engagement with shareholders, employees and other stakeholders. Further details on how Directors have complied with CA2006 S.172(1) are included in the Corporate Governance section (on page 9), which sets out how the Board and management work to ensure feedback from a broad range of stakeholders is considered, whilst keeping the business model current and sustainable.

Principal risks and uncertainties

The Risk Management Framework (RMF) sets out how the Company manages its risk and control environment. The RMF defines types of risk, identifies sources of risk, and describes how those risks are effectively identified, measured, monitored, reported, and mitigated.

The risk management approach under the RMF comprises six key components:

- **Risk Appetite:** The Company's Risk Appetite defines and quantifies the risks that the Company is exposed to and sets out what level of each risk it is willing to take given its business strategy.
- **Risk Management Model:** The Company operates a risk management model comprising mechanisms and processes to identify, measure, monitor, report and mitigate risks.
- **Lines of Defence:** In the first line, business areas are responsible for implementing policies and procedures to manage risk; in the second line the Company monitors risk performance of the first line. In 2020 the Company will operate three lines of defence with a third line of internal audit acting as a check on the first two lines.
- **Governance:** Authorities and responsibilities for risk management are clearly allocated to committees and individuals at Board and Management level. The Board retains responsibility for maintaining risk management and internal control systems, and for the identification, measurement, management and control of risks of regulatory concern involving the Company. It delegates the execution of this responsibility to the relevant committees and individuals.
- **Culture and People:** The Company's culture helps to ensure that a healthy and efficient risk environment is implemented from the bottom up. The Company performs regular monitoring of Culture through staff survey.
- **Policies and Procedures:** Policies and procedures are in place to ensure the Company's front-line activities are conducted within the bounds set by the Risk Appetite statement.

Zopa Limited

Strategic report (continued)

Principal Risks

The Company categorises the risks it faces into four major risk types – Credit, Financial, Operational and Strategic:

Risk Type	Mitigation
P2P Platform Credit risk In the context of the Company's P2P product, credit risk is the risk that borrowers on the P2P platform default on their loans or obligations, resulting in investors making a loss on their investment or not achieving their targeted returns.	• Operate in selected sectors, where we have expertise. • Consistently apply the approved credit policy, and price credit facilities for risk. • Obtain physical collateral where appropriate. • Undertake robust in-life management of the credit portfolio, including by careful management of customers in collections. • Perform regular monitoring and reporting of credit performance against investor's stated risk appetite.
Financial risk The risk that the Company has insufficient resources (capital and liquidity) to support its business model and strategy.	• Maintain a capital buffer above minimum regulatory requirements and expected wind down costs. • Perform regular monitoring and reporting of capital adequacy against risk appetite. • Perform regular monitoring and reporting of liquidity against risk appetite.
Operational risk The risk that the Company suffers losses 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 compliance risk (the risk that the Company fails to meet its regulatory obligations) and conduct risk (the risk that the Company's actions result in poor customer outcomes).	• Identify and allocate owners to all material business processes, and conduct risk assessments on these. • Set, and implement controls to monitor ensure compliance with, policies designed to mitigate operational risks. • Perform regular monitoring of controls performance and risk events against risk appetite and escalate swiftly if internal triggers or limits are breached. • Perform periodic deep-dive testing of operational risk management in individual process areas. • Conduct regular business continuity, disaster recovery, and cyber security vulnerability testing. • Conduct regular compliance testing and monitoring of customer outcomes.
Strategic risk The risk of opportunity loss from the failure to optimise the earnings potential of the Zopa franchise.	• Maintain a Board and Management Committee composed of skilled and experienced individuals. • Conduct periodic strategic planning exercises and hold regular Board and Management Committee strategy discussions.

Principal Uncertainties

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

Theme	Risk	Mitigation
Significant UK downturn	A significant UK macroeconomic downturn could result in a worse than expected credit performance, lower borrowing and lower liquidity from investors contributing to lower growth	• Credit applications assessed in the light of potential stress scenarios • Ability to flex credit policy • Regular monitoring to allow appropriate response and customer communication
Significant decline of P2P reputation	A significant number of P2P competitors failing could result in loss of confidence in the P2P industry with customers leaving the platform, leading to liquidity constraints and a drop in valuation	• Ongoing proactive and reactive engagement with regulators and media

Zopa Limited

Strategic report (continued)

Theme	Risk	Mitigation
Impact of regulatory change	Changes to regulation may impact the number and volume of new retail funding on the platform	• Regular monitoring of customer confidence and funding levels to allow • Ability to flex institutional funding
Major cyber or IT incident	A major cyber-attack or IT outage could prevent the Company providing its critical business services, leading to customer harm, loss of revenue and reputational damage	• Robust business continuity, disaster recovery and back-up arrangements • Ongoing information security threat monitoring, ensuring that counter-measures are up to date and effective.
Failure of a critical outsource provider or supplier	A failure or defect in an outsourced provider's performance of critical functions for the Company could cause service outages or customer detriment	• Initial and ongoing due diligence on all critical outsourcing providers including on business continuity, information security, data protection and customer treatment • Service-level agreements and contracts in place with providers to help ensure services delivered to the right standard

COVID 19 has impacted the Company across multiple risk types described above. Early indicators suggest that there will be a significant increase in borrower defaults resulting in investors making a loss on their investment or not achieving their targeted returns. The business has already seen a significant increase in Investors wishing to withdraw their funding via secondary loan sales, leading to reduced funds available for the business to continue lending via the P2P platform. This is combined with tightening of credit and a reduction in demand for loans, which has further reduced ongoing lending volumes.

COVID 19 has required the Company to enable home working for all employees, but this has been managed successfully with no adverse impacts to date on the Company's ability to conduct key business processes and service customers.

There is uncertainty over the extent of the ongoing impacts of COVID 19 on our business which could present itself in the form of a prolonged credit downturn; staff shortages and increased risk of failures of third-party service providers. In addition, COVID19 may present risks to our ability to raise new capital in future.

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

On behalf of the Board,

DocuSigned by:
Natasha Wear
0288EEF8E791428...
Natasha Wear
Director
24th June 2020

Zopa Limited
Corporate Governance

The following section outlines how the Directors have complied with s. 172(1)(a) - (f) of the Companies Act 2006 when performing their duty to promote the success of the Company.

The Board

The Board of Directors directs the business in a manner designed to ensure effective governance and compliance with legal and regulatory requirements. The Board directs the Company by setting its strategy and risk framework, whilst ensuring that the Company's culture, values and standards are aligned with that of its Parent Company, Zopa Group Limited.

The Board is supported by the Management Committee, which is responsible for executing the Company's strategy; making decisions and recommendations to the Board; reviewing risk and performance MI; and ensuring high standards of business conduct.

The Board operates within a formal schedule of matters reserved which sets out key responsibilities and approvals required by the Board. The matters reserved are designed to ensure that decisions made by the Board are taken to promote the success of the Company and are taken for the benefit of its shareholder. Matters reserved for the Board include:

- Providing input and challenge to the Zopa Group Strategy and implementing the Company's contribution to the strategy, business model and objectives for customer focus and long-term sustainable success of Zopa Group.
- Promoting the Group's culture, values, behaviours and standards.
- Determining its risk appetite, including the risk appetite statement, and ensuring the Company's strategy and objectives are aligned with that risk appetite.
- Maintaining its own risk management and internal control systems.
- Robust governance arrangements.
- Adoption and maintenance of the Group policies and the creation, adoption and maintenance of key Company policies.
- Business continuity arrangements.
- Intra-group services, licenses and the entering into, material amendment, renewal or termination of material contracts.

Key activities and decisions taken by the Board throughout the year, in order to promote the success of the Company and generate long-term value, included:

- Scrutiny and approval of the Company's Strategy.
- Reviewed the certification and appropriateness test plans for existing and new investors.
- Approval of the Company Wind Down Plan.
- Implementation of the Senior Manager and Certification Regime.
- Approval of the Risk Appetite Statement, Risk Management Framework, Conflict of Interest Policy and the Decision-Making Framework.
- Approval of the Intra-Group Agreement.

Board Training

During the year two independent non-executive Directors were appointed to ensure that the Board could continue to form independent and objective views on matters put to them. New Board members were offered comprehensive induction training on the business, corporate governance, products, and the Company's approach to prudential risk, risk management, conflicts of interest, anti – bribery and corruption, value and culture. Additionally, new Board members met with relevant staff to support their transition into the role. The Company secretarial team ensures that the annual training plan also includes any updates on developments in corporate governance or Directors' duties and responsibilities.

Zopa Limited

Corporate Governance (continued)

Conflicts of Interest

The Chair ensures that any conflicts of interest are declared, recorded in the Conflicts Register and managed in accordance with legal requirements. The Group's subsidiary governance framework has been developed to ensure that conflicts of interest between the different entities are minimised. The respective terms of reference for the boards set out clear ownership and responsibilities for matters so that conflicts of interest can be avoided.

Employee Engagement and Culture

The Board is responsible for setting the Company's values and standards and ensuring that the Company is managed with integrity. The Board monitors how the culture and the Company's culture and values have been incorporated in the business, and the people process.

The Company's long-term success is predicated on the commitment of the workforce to its purpose, and the demonstration of the Company's values on a daily basis. The Company aims to ensure that employees are well informed on the Company's strategy and decisions that impact them. This is achieved through regular company meetings, regular communication and townhalls.

The Company carries out an employee opinion survey twice a year. The employee opinion survey results provide the opportunity for the Executive Management Team to gain a perspective of employee's view of strategy, leadership, culture and values. Management assesses the results of the surveys and takes appropriate actions.

In September 2018, The Company signed up to the Women in Finance Charter and committed to increase the percentage of women in senior management (roles that reports directly to an EXCO Member) to 43% by the end of December 2021. As of August 2019, the percentage for the Company was 38%. The Company is undertaking a series of activities in order to drive towards improving the ratio to 43%, including reviewing recruitment practices and employee performance management processes to ensure there is no gender bias.

In 2019 the Company is partnering with Future Frontiers, which is a not-for-profit organisation which delivers an award-winning programme of face-to-face coaching and access to professional role models designed to develop aspirations and transform young people's attitudes towards their learning. This programme is specifically targeted at children from disadvantaged backgrounds. Also, each staff member is allocated 2 days (paid leave) per year to volunteer for a charity of their choice as a way to "give back" to the community on causes close to their hearts.

Shareholder Engagement

Two of the Directors of the Company are also Board Members of Zopa Group Limited, the parent entity. Common membership across the two boards ensures consistency in strategic direction and management approach. It also provides the shareholders with a view of business activity and key decision making and presents the opportunity for challenge.
This ensures that Zopa Group's largest shareholders are regularly updated on the progress of the Company as many of them attend the Zopa Group Limited Board as Directors or observers. For those shareholders not attending the Board, our Executive Management team ensure that regular updates are provided to them.

Our Regulators

The Chair and Management Team are in regular contact with our regulator, the FCA. This communication has been on a very regular basis during 2019 due to the new regulation introduced for the industry on 9 December 2019.

Customers

The Company engages with its customers regularly to ensure that they are kept informed on relevant company and product developments. The Company also provides touchpoints for customers to provide feedback on the quality of its service and experience with the intention of ensuring customers are satisfied. Customers of the Company include borrowers, retail investors and institutional investors.

The Company's borrowers are managed by the Unsecured Personal Loans (UPL) team and the Auto lending team; the Investor team manages, supports and updates our retail investors; and the Capital Markets team manages, supports and updates our institutional investor customers. All our customers are supported by the Customer Services team and our commitment to ensuring we provide excellent customer service has seen us win the Moneywise Customer Service Award for Most Trusted P2P Platform.

The Management Committee and the Board review customer MI on a regular basis. Customer expressions of dissatisfaction and complaints are frequently reviewed in order to identify actions to address.

Industry Bodies

The Company was a member of the P2PFA until 31st December 2019 and subsequently joined The Innovate Finance as the 36H Group in January 2020. During 2019 the Company joined UK Finance and the Finance and Leasing Association (FLA). The Company has started to participate regularly in the working groups and committees. The Company has also provided input during the year into some of P2PFA and UK Finance's responses to various Government and FCA consultations.

Suppliers and Outsourcing

The Company has a well-established procurement process that ensures we select appropriate suppliers who will help us maintain our high standards of service. We also have a well-established supplier management process so that suppliers are managed to minimise any risk they could pose to the Company and to ensure good customer outcomes. Key outsourcing decisions are made by the Board and the ongoing monitoring of key suppliers, through regular MI, is carried out by the Management Committee and the Board.

Zopa Limited
Directors' report for the year ended 31 December 2019

The Directors present their annual report and audited financial statements of the Company for the year ended 31 December 2019. 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.

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:

Jaidev Janardana	(resigned 15th June 2020)
Christine Farnish (Chairperson)	
Zitah McMillan-Ward	
Doris Honold	(appointed 30th January 2019)
Natasha Wear	(appointed 28th March 2019)
Michael Woodburn	(appointed 28th March 2019)
Giles Andrews	(resigned 30th January 2019)

Going concern

The financial statements have been prepared on a going concern basis, as the Directors are satisfied that the Company will have 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, including alternative scenarios, have been reviewed by the Directors. When preparing the forecasts, the Company has reflected the economic repercussions of the coronavirus, including the risk of worse than expected credit performance, and lower demand for borrowing, thus contributing to lower growth.

The base case forecast assumes that the Company will continue to originate loans on its platform whilst a more severe downside scenario assumes no new loan originations on the platform at all. As a result of transferring assets to Zopa Bank Limited, the Company will make a considerable gain on the sale and will occur lower operational costs going forward. The Company has assessed its liquidity and capital positions until the end of 2021.

Employee involvement

Employee engagement is one of the Company's key objectives and is measured biannually. Team engagement scores make up part of managers' assessments. To support engagement this year we have focused on scaling our communication in line with the business growth, learning and development improvements and ongoing improvements in workplace technology.

The Company has also rolled out a refresh of its culture and values over the last 18 months to ensure that employees continue to feel connected to the Company and its mission as it grows. To further align the interests of the employee and the Company, the Company's compensation structure is tied to the Company's performance, ensuring that the progress of the Company is shared with employees. Many staff members also partake in Group share ownership plans, with equity interests vesting over a period of time.

Donations

The Company made no political donations in 2019 (2018: 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). Additionally, applicants are asked prior to the interview stage if we need to make any special adjustments for them to take part in the process. The Company currently employs people with a disclosed disability and is able to make suitable adjustments to create an inclusive and safe working space for them. In addition, our offices are fully wheelchair accessible.

Management of financial risk

The Company's management of financial risks is detailed in note 23.

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.

Directors' confirmations

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

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

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.

Zopa Limited

Directors' report for the year ended 31 December 2019 (continued)

The financial statements on pages 18 to 50 were approved by the Board of Directors on 22nd June 2020 and signed on its behalf by:

DocuSigned by:
Natasha Wear
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Natasha Wear
Director
24th June 2020

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 2019 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 2019; the income statement, 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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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.

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.

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

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

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 2019 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 13, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

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

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
Nick Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 June 2020

Zopa Limited

Income Statement for the year ended 31 December 2019

	Note	31 December 2019 £000	(Represented[1]) 31 December 2018 £000
Interest Income	4	194	191
Interest Expense	5	(285)	(2)
Net Interest Income / (Expense)		**(91)**	**189**
Fee and Commission Income		46,252	38,251
Other Income	6	6,935	9,147
Fee and Commission Expense		(12,833)	(14,473)
Total Operating Income		**40,263**	**33,114**
Administrative Expenses	7	(39,663)	(36,722)
Operating Profit Before Impairment Losses		**600**	**(3,608)**
(Loss)/Gain on disposal of intangible assets		(7)	3,774
Impairment losses on loans and advances to customers		(18)	(21)
Profit Before Taxation		**575**	**145**
Taxation	11	2,083	839
Profit After Tax - Attributable To Equity Holders		**2,658**	**984**

The notes on pages 22-50 form part of these financial statements.

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

[1] The comparative figures for 2018 have been represented due to the change in presentation. Please refer to note 1 (a) for further details.

Zopa Limited

Statement of Financial Position as at 31 December 2019

	Note	31 December 2019 £000	(Represented[1]) 31 December 2018 £000	(Represented[1]) 1 January 2018 £000
Assets				
Cash and balances with banks		3,860	3,939	7,938
Loans and advances to customers	12	198	542	1,083
Amounts due from other Group undertakings	22	7,221	6,559	5,589
Prepayments and accrued income		1,827	2,761	2,426
Current tax asset		2,976	1,511	1,111
Other assets		2,272	2,152	2,316
Property, plant and equipment	13	1,041	1,704	1,634
Right of use assets	14	6,852	-	-
Intangible assets	15	7,156	5,120	3,467
Total Assets		**33,403**	**24,288**	**25,653**
Liabilities				
Amounts due to banks		21	99	12
Amounts due to other Group undertakings	22	647	2,276	6,001
Accruals and deferred income		2,451	4,463	2,730
Provisions	16	2,071	322	274
Other liabilities	17	1,175	969	2,437
Lease liabilities	14	7,498	-	-
Total Liabilities		**13,863**	**8,129**	**11,454**
Equity				
Share capital	18	200	200	200
Share premium		5,816	5,816	5,816
Other reserves		45,651	44,781	43,716
Accumulated losses		(32,127)	(34,638)	(35,533)
Total Equity		**19,540**	**16,159**	**14,199**
Total Liabilities and Equity		**33,403**	**24,288**	**25,653**

The notes on pages 22-50 form part of these financial statements.

The financial statements of Zopa Limited (Registered Number 05197592) were approved by the Board of Directors on 22nd June 2020 and were signed on its behalf by:

DocuSigned by:
Natasha Wear
0288EEF8E701428...
Natasha Wear
Director
24th June 2020

[1] The comparative figures for 2018 have been represented due to the change in presentation. Please refer to note 1 (a) for further details.

Zopa Limited

Statement of changes in equity for the year ended 31 December 2019

	Share Capital £000	Share Premium £000	Other Reserves £000	Accumulated Losses £000	**Shareholders' Equity £000**
Balance at 1 January 2018	**200**	**5,816**	**43,716**	**(35,622)**	**14,110**
Comprehensive income					
Profit for the year	-	-	-	984	**984**
Total comprehensive income	**-**	**-**	**-**	**984**	**984**
Transactions with owners					
Issue of share capital	-	-	-	-	**-**
Share based payment charge	-	-	1,065	-	**1,065**
Total transactions with owners	**-**	**-**	**1,065**	**-**	**1,065**
Balance at 31 December 2018	**200**	**5,816**	**44,781**	**(34,638)**	**16,159**
Change on initial application of IFRS 16	-	-	-	(147)	**(147)**
Balance at 1 January 2019	**200**	**5,816**	**44,781**	**(34,785)**	**16,012**
Comprehensive income					
Profit for the year	-	-	-	2,658	**2,658**
Total comprehensive income	**-**	**-**	**-**	**2,658**	**2,658**
Transactions with owners					
Issue of share capital	-	-	-	-	**-**
Share based payment charge	-	-	870	-	**870**
Total transactions with owners	**-**	**-**	**870**	**-**	**870**
Balance at 31 December 2019	**200**	**5,816**	**45,651**	**(32,127)**	**19,540**

The notes on pages 22-50 form part of these financial statements.

Zopa Limited

Statement of cash flows for the year ended 31 December 2019

	Note	31 December 2019 £000	(Represented[1]) 31 December 2018 £000
Cash flows from operating activities			
Profit before taxation		575	145
Adjustments for:			
Change in operating assets		1,158	4,192
Change in operating liabilities		(135)	(5,325)
Payment of lease liabilities	14	(1,999)	-
Non-cash and other items		5,913	211
Taxation received		617	441
Net cash generated from / (used in) operating activities		**6,129**	**(336)**
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(348)	(1,096)
Purchase of intangible assets	15	(3,689)	(4,588)
Proceeds from disposal of non-current assets	15	-	4,815
Loan provided to other group undertakings	22	-	(4,815)
Interest received	4	13	10
Net cash used in investing activities		**(4,024)**	**(5,674)**
Cash flows from financing activities			
Issue of new shares		-	-
Change in intercompany loan balances	22	(2,291)	2,000
Interest received on intercompany loans	4, 22	107	11
Net cash (used in)/ provided by financing activities		**(2,184)**	**2,011**
Net decrease in cash and cash equivalents		**(79)**	**(3,999)**
Cash and cash equivalent at the start of the period		3,939	7,938
Movement during the period		(79)	(3,999)
Cash and cash equivalents at the end of the period		**3,860**	**3,939**

Cash and cash equivalents consists of:			
Cash and balances with banks		3,860	3,939
Cash and cash equivalent at the end of the period		**3,860**	**3,939**

The notes on pages 22-50 form part of these financial statements.

[1] The comparative figures for 2018 have been represented due to the change in presentation. Please refer to note 1 (a) for further details.

Zopa Limited

Notes to the financial statements

1. Principal accounting policies

(a) Basis of preparation

The Company is incorporated and domiciled in England & Wales in the United Kingdom under the Companies Act 2006. The Company is a private company and is limited by shares. The address of the registered office is detailed on page 3.

These financial statements have been prepared in accordance with IFRS as adopted by the EU and interpretations issued by the IFRS Interpretations Committee ("IFRIC") and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention or at fair value for financial instruments measured at fair value through other comprehensive income. The principal accounting policies, which have been consistently applied, except where indicated, are set out below.

The Company has changed the format of the statement of financial position, income statement and cashflow statement, so that assets and liabilities are presented in increasing/ decreasing order of liquidity instead of a split between current and non-current assets and liabilities. Accordingly, the format of the income statement also changed, to align the revenue streams to either IFRS 9 (interest income/ expense) or IFRS 15 (fee and commission income/ expense). This aligns the format of the financial statements with the rest of the Group and provides the readers of the financial statements with improved information about the asset class exposures and liquidity risk profile of the Company.

As this constitutes a change in accounting policy there is a retrospective presentation of the statement of financial position, income statement and cash flow statement as if the new policy was applied in the comparative period. The statement of financial position presents figures for three periods: as at the 31 December 2019 (current period), as at 31 December 2018 (comparative period) and as at 1 January 2018 (the beginning of the comparative period). Note 25 shows a reconciliation of financial lines items in the statement of financial position and the income statement as at and for the year ended 31 December 2018 between the new format and the old format.

(b) Functional and presentation currency

The financial statements are presented in Pounds Sterling, which is the functional and presentational currency of the Company. All amounts have been rounded to the nearest thousand, 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 profit and loss.

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.

(c) Going concern

The financial statements have been prepared on a going concern basis, as the Directors are satisfied that the Company will have 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. When preparing the forecasts, the Company has reflected the economic repercussions of the coronavirus, including the risk of worse than expected credit performance and lower demand for borrowing, thus contributing to lower growth. 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.

The base case forecast assumes that the Company will continue to originate loans on its platform whilst a more severe downside scenario assumes no new loan originations on the platform at all. As a result of transferring assets to Zopa Bank Limited, the Company will make a considerable gain on the sale and will occur lower operational costs going forward. The Company has assessed its liquidity and capital positions until the end of 2021.

(d) Presentation of risk and capital disclosures

Principal risks and uncertainties are disclosed in the Strategic Report (pages 6-8), whilst IFRS 7 disclosures for financial risks, including capital risk, are disclosed in note 23.

(e) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Information about areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in note 3.

(f) New and amended standards adopted by the Company

<u>IFRS 16 Leases</u>

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.

At initial adoption on 1 January 2019, the Company is 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 resulted in the recognition on 1 January 2019 of a lease liability of £9.2m, a related right of use asset of £8.6m and a reduction in other liabilities of £911k. This resulted in a reduction on 1 January 2019 of £147k in equity. Subsequent to the initial adoption, the effect of IFRS 16 on the income statement recognition profile of leases is not expected to be material.

<u>Other amendments effective on 1 January 2019</u>

The following amendments became effective on 1 January 2019, but have no impact on the financial statements as the Company does not have any activity or products relating to them:

- *IFRIC 23* Uncertainty over income tax treatments
- Prepayment features with negative compensation – *Amendments to IFRS 9*
- Long term interests in associates and joint ventures – *Amendments to IAS 28*
- Annual improvements to IFRS 2015-2017 Cycle: *IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Disclosure of Interests in Other Entities, IAS 23 Borrowing Costs*

(g) New standards, amendments and interpretations issued but not mandatory effective before 31 December 2019

The following amendments are effective for annual periods beginning on or after 1 January 2020 and there is no financial impact of these standards at present, however the Company will review and assess any impact in the future:

- *IFRS 17 Insurance Contracts, amendments to definitions to IAS1 and IAS 8 and amendments to IFRS 3 – Definition of a business*
- *Amendments to IAS 1 and IAS 8*
- Sale or contribution of assets between an investor and its associate or joint venture – *Amendments to IFRS 10 and IAS 28*
- *Revised Conceptual Framework for Financial Reporting*

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.

2. Significant accounting policies

(a) Interest income and expense

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 consists of interest on financial assets measured at amortised cost calculated on an EIR basis.

(b) Fee and commission income

Fee and commission income includes fees relating to services provided to customers which do not meet the criteria for inclusion within interest income.

The Company recognises fee and commission income when services are provided to customers and the Company has satisfied its performance obligations under the contract, at an amount that reflects the consideration to which 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.

Fee and commission income is mainly comprised of commission charged to borrowers and lenders for the use of the on-line lending and borrowing exchange. Income 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.

(c) Other income

Other income relates to support services the Company provides to other entities in the Zopa 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.

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

(d) Fee and commission expense

Fee and commission expense consists of introducer commissions, legal and valuation fees and credit search fees. Where these fees and commissions are incremental costs that are directly attributable to the issue of a financial instrument, they are included in interest income as part of the EIR calculation. Where they are not incremental costs that are directly attributable, they are recognised within fee and commission expense as the services are received.

Fee and commission expense also includes intercompany recharges for services provided by other entities in the Zopa 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.

(e) Financial instruments

Recognition and derecognition

I. Recognition

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets are recognised on trade date.

II. Derecognition

Financial assets are derecognised when and only when:

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

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

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

Financial assets

III. Classification

There are three principal classification categories for financial assets:

Zopa Limited

Notes to the financial statements (continued)

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

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

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

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

Based on the two assessments and the financial assets held by the Company, all are classified as measured at amortised cost.

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

IV. Measurement

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 impairment provisions for incurred losses. Financial assets measured at amortised cost mainly comprise loans and advances to customers and cash and balances with banks.

The Company does not have any financial assets measures at fair value through other comprehensive income nor at fair value through profit or loss.

Financial liabilities

V. 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.

Zopa Limited

Notes to the financial statements (continued)

Impairment – financial assets

This policy applies to:

- financial assets measured at amortised cost; and
- loan commitments.

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:

VI. 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 significantly, 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.

Qualitative Criteria

- The borrower has agreed to an alternative payment plan
- The borrower is in arrears

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 their contractual payments.

VII. 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.

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.

(f) Leases

IFRS 16 replaced IAS17 effective from 1 January 2019. For the impact on transition to IFRS 16 please refer to note 1(f).

I. As a lessor

The accounting treatment for leases under IFRS 16, where the Company acts as a lessor remained unchanged from IAS 17. The Company does not currently act as a lessor in any lease contracts.

II. As a lessee

The Company leases various properties for office space. Contracts may contain both lease and non-lease components.

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.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. In the absence of any borrowing history, the Company determined its incremental borrowing rate to be equal to the SONIA rate plus a margin of 2%.

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 lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and

- restoration costs

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

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

(g) Property, plant and equipment and depreciation

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.

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 3-5 years
- 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.

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

(h) Intangible assets and amortisation

Purchased intangibles
This includes technology assets such as IT licenses.

Internally generated
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 economic lives and the amortisation recorded within operating expenses in the Income Statement once the asset is brought into revenue-generating use. 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. The useful economic life of the purchased and internally generated intangible assets is considered to be 3 years.

(i) Impairment of non-financial assets

Other intangible assets
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 higher 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.

(j) Provisions

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

(k) Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities are translated at the rates of exchange ruling on the reporting date and any differences arising are generally recognised in the income statement. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within administrative costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses. Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in GB Pound Sterling (£), which is the Company's functional and presentation currency.

(l) 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. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

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

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.

(m) 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.

(n) Pension obligations

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

(o) 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 granted, and 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.

(p) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents is comprised of cash and advances to banks and short term highly liquid debt securities with less than 3 months to maturity from the date of acquisition.

3. 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.

Zopa Limited

Notes to the financial statements (continued)

(a) Share based payments

The Company has used the Black Scholes valuation model to estimate the fair value of share-based payments. The significant assumptions used in the Black Scholes model are disclosed in note 20.

(b) Intangible assets

Intangible assets are recognised only when it is probable that the future economic benefits that are attributable to the asset will flow to the Company.

(c) Measurement of the expected credit loss allowance

The measurement of the expected credit loss (ECL) allowance for financial assets is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour as listed below.

<u>Definition of default</u>
IFRS 9 does not define default for the purpose of defining the PD as used when calculating ECLs and impairment provisions for stage 1 and stage 2 assets. As detailed in note 2(e)(vii), the Company has defined default on a basis that is consistent with the definition it uses for determining whether an asset is credit impaired, and is therefore classified as stage 3, and with the definition of default that is used for regulatory reporting purposes.

<u>Significant increase in Credit Risk for classification in stage 2</u>
As explained in note 2(e)(vi), loan impairment provisions are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Company takes into account qualitative and quantitative reasonable and supportable forward-looking information. Refer to note 2(e)(vi) for more details.

<u>PD models</u>
The Company has employed a number of PD models, tailored to different types of lending with shared characteristics, to assess the likelihood of default within the next 12 months and over the lifetime of each loan. The models calculate estimates of PDs based upon current characteristics of the borrower and observed historical default rates.

<u>LGD models</u>
The Company has developed LGD models for the different types of lending. The LGDs are based on historical recoveries, which included any past debt sales, and benchmark information obtained from credit bureaus or other sources.

<u>Economic Scenarios</u>
In its forward-looking adjustments for impairment provision calculations, the Company adopted four economic scenarios (three in December 2018). 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 three alternative scenarios: a more optimistic scenario (Upside, with 10% probability) and two more pessimistic scenarios (Downside, with 20% probability, and Severe Downside, with 10% 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, while the Severe Downside scenario assumes credit conditions deteriorate even further with a short-medium term shock and a slow path of recovery towards the Base scenario. The calculation of impairment provisions reflects the probability-weighted outputs from the four scenarios.

The economic projections used by the Group are updated quarterly and the economic scenarios used in the credit impairment provision model are reviewed accordingly.

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 2020. Unemployment is assumed to increase slightly to 4.2% in the near term and then to revert back to 4% 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.

Upside scenario: assumes that the reduction in political uncertainty, along with positive outcomes from trade negotiations, lead to a revival of confidence and investment, prompting a resurgence in economic activity. This could lead to further reductions in unemployment rates, which could stabilize over of the medium term at a level slightly below what is currently observed. 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: reflects continued uncertainty about the UK's long-term foreign trade relationships or negotiations resulting in unfavourable conditions for the UK Business investment and consumer spending fall, and GDP essentially flatlines in 2020. Households, facing deteriorating living standards, borrow more and debt to income rises. The unemployment rate rises as the subdued economic growth quickly starts affecting the labour market, reaching its peak at over 5% in 2021.

Severe downside scenario: this scenario was added in September 2019 to reflect the uncertainty experienced in the UK economy not only due to the ongoing Brexit negotiations, but also due to a more pronounced slowdown in global economic growth after an escalation of the US-China trade war. The scenario assumes consumers and businesses cutting back on investment and spending, leading to a fall in GDP of 1.4% in 2020 with a modest improvement starting in 2021, albeit still in recession. The unemployment rate rises quickly, reaching 6.9% in Q4 2021 and remaining elevated in 2022.

The forecast for the key metrics used by the Company 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	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Base case	60%	60%	4.2%	4.6%	26.6%	26.3%
Upside	10%	20%	3.7%	4.1%	23.9%	24.0%
Downside	20%	20%	5.3%	5.9%	30.5%	28.2%
Severe downside	10%	-	7.6%	-	33.5%	-

Sensitivity analysis

If the upside scenario were to materialise, the loss allowance as at 31 December 2019, would have been £91k (31 December 2018: £265k). Conversely, under the downside scenario it would have been £98k (31 December 2018: £285k).

Zopa Limited

Notes to the financial statements (continued)

4. Interest Income

	Note	2019 £000	2018 £000
Interest income under the effective interest method on:			
- Cash and cash equivalent		13	10
- Loans and advances to customers at amortised cost		48	170
- Loans and advances to other group undertakings at amortised cost	22	133	11
Total interest income arising from financial assets measured at amortised cost		**194**	**191**

5. Interest Expense

	Note	2019 £000	2018 £000
Interest expense under the effective interest method on:			
- Financial liabilities from other group undertakings	22	26	2
- Lease liabilities	14	259	-
Total interest expense arising from financial liabilities measured at amortised cost		**285**	**2**

6. Other income

	Note	2019 £000	2018 £000
Intercompany recharges	22	6,935	9,147
Total other income		**6,935**	**9,147**

7. Administrative expenses

	Note	2019 £000	2018 £000
Staff Costs	8	16,620	20,964
Information Technology		3,801	4,096
Intercompany recharges		12,008	4,348
Legal and Professional		1,102	1,453
Depreciation	13, 14	2,753	1,026
Amortisation	15	1,653	1,894
Other		1,726	2,941
Total administrative expenses		**39,663**	**36,722**

Zopa Limited

Notes to the financial statements (continued)

8. Staff Costs

	Note	2019 £000	2018 £000
Wages and salaries		13,697	17,261
Social Security costs		1,519	2,142
Other pension costs		534	496
Share based payments	20	870	1,065
Total staff costs		**16,620**	**20,964**

Pension costs relate to amounts paid into defined contribution pension schemes. The average monthly number of persons (including Directors) employed during the year was:

	2019 Number	2018 Number
Loan operations and servicing staff	157	202
Administration	82	123
Total staff	**239**	**325**

9. Directors' Remuneration

	2019 £000	2018 £000
Directors' emoluments	392	561
Payments in respect of personal pension plans	9	11
Share-based compensation arrangement	53	147
	454	**719**

Highest paid Director

The below amounts include the following in respect of the highest paid Director:

	2019 £000	2018 £000
Emoluments	169	427
Payments in respect of personal pension plans	5	9
Share-based compensation arrangement	30	109
	204	**545**

10. The Company's Auditors

Services provided by the Company's auditors (excluding VAT):	2019 £000	2018 £000
Fees payable to the Company's auditors for the audit of the financial statements	67	53
Audit related assurance services	109	66
Taxation advisory services	-	8
Other assurance services	74	88
	250	**215**

Zopa Limited

Notes to the financial statements (continued)

11. Taxation

a) Tax Credit

	2019 £000	2018 £000
Current tax (credit) /charge on profits for the year	(1,098)	(839)
(Over)/under provision in previous periods	(985)	-
Total current tax credit	**(2,083)**	**(1,112)**
Deferred Tax not recognised	-	-
Under provision in previous periods	-	-
Total deferred tax charge	**-**	**-**
Total tax credit	**(2,083)**	**(839)**

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.

b) Reconciliation of effective tax rate

	2019 £000	2018 £000
Profit before tax	**575**	**145**
Tax at 19% (2018: 19.00%)	109	28
Expenses not deductible for tax purposes	167	426
Under provision in previous period	(985)	-
R&D tax credit	(1,098)	(839)
Other differences	(276)	(454)
	(2,083)	**(839)**

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

c) Unrecognised deferred tax assets

	2019 £000	2018 £000
Deductible temporary differences	-	230
Tax losses carried forward	4,803	5,219
	4,803	**5,449**

12. Loans and advances to customers

		2019 £000	2018 £000
Gross loans and advances to customers	23	294	815
less: allowance for impairment losses	23	(96)	(274)
Total loans and advances to customers		**198**	**541**

Zopa Limited

Notes to the financial statements (continued)

13. Property, plant and equipment

	Office Equipment £000	Fixtures and fittings £000	Total £000
Cost			
Balance at 1 January 2018	2,289	939	3,228
Additions	718	378	1,096
Balance at 31 December 2018	3,007	1,317	4,324
Balance at 1 January 2019	3,007	1,317	4,324
Additions	342	6	348
Disposals	(890)	-	(890)
Balance at 31 December 2019	**2,459**	**1,323**	**3,782**
Accumulated depreciation			
Balance at 1 January 2018	1,141	453	1,594
Depreciation charge for the year	665	361	1,026
Balance at 31 December 2018	**1,806**	**814**	**2,620**
Balance at 1 January 2019	1,806	814	2,620
Depreciation charge for the year	701	303	1,004
Disposals	(883)	-	(883)
Balance at 31 December 2019	**1,624**	**1,117**	**2,741**
Carrying amounts			
Balance at 1 January 2018	1,148	486	1,634
Balance at 31 December 2018	1,201	503	1,704
Balance at 31 December 2019	**835**	**206**	**1,041**

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year ended 31 December 2019 (31 December 2018: nil).

Assets with historic cost of £334k have fully depreciated but are still in use.

14. Leases as a lessee

Information about the leases for which the Company is a lessee is presented below.

a) Right-of-use assets

	Leasehold Property £000	Total £000
Balance at 1 January 2019	8,601	8,601
Additions	-	-
Depreciation charge for the year	(1,749)	(1,749)
Balance at 31 December 2019	**6,852**	**6,852**

b) Lease Liabilities

	Leasehold Property £000	Total £000
Balance at 1 January 2019	9,238	9,238
Additions	-	-
Interest charge for the year	259	259
Payments during the year	(1,999)	(1,999)
Balance at 31 December 2019	**7,498**	**7,498**

Current	(1,995)
Non-current	(5,503)
Total	**(7,498)**

	2019 £000
Maturity analysis - contractual undiscounted cashflows	
Less than one year	(2,198)
One to five years	(5,741)
Total undiscounted lease liabilities	**(7,939)**

c) Amounts recognised in the income statement

	2019 £000
Interest on lease liabilities	259
Expenses relating to short term leases (included in administrative expenses)	62
Expenses relating to low value assets that are not shown above as short-term leases (included in administrative expenses)	14
Expense relating to variable lease payments not included in lease liabilities (included in administrative expenses)	3

d) Amounts recognised in the statement of cashflows

	2019 £000
Total cash outflows for leases	1,999

15. Intangible assets

	Purchased software £000	Internally generated £000	Total £000
Cost			
Balance at 1 January 2018	646	3,838	4,484
Additions	-	4,588	4,588
Disposals	-	(1,041)	(1,041)
Balance at 31 December 2018	**646**	**7,385**	**8,031**
Balance at 1 January 2019	**646**	**7,385**	**8,031**
Additions	-	3,689	3,689
Disposals	-	-	-
Balance at 31 December 2019	**646**	**11,074**	**11,720**
	-	-	-
Accumulated amortisation	-	-	-
Balance at 1 January 2018	181	836	1,017
Amortisation charge for the year	215	1,679	1,894
Balance at 31 December 2018	**396**	**2,515**	**2,911**
Balance at 1 January 2019	396	2,515	2,911
Amortisation charge for the year	197	1,456	1,653
Disposals	-	-	-
Balance at 31 December 2019	**593**	**3,971**	**4,564**
	-	-	-
Carrying amounts	-	-	-
Balance at 1 January 2018	465	3,002	3,467
Balance at 31 December 2018	250	4,870	5,120
Balance at 31 December 2019	**53**	**7,103**	**7,156**

Amortisation charge for 2019 includes £124k in relation to write offs during the year (2018: £397k).

16. Provisions

	£000
As at 1 January 2018	**274**
Provided during the year	48
Balance at 31 December 2018	**322**
Balance at 1 January 2019	322
Provided during the year	1,749
Balance at 31 December 2019	**2,071**

Provisions includes £0.7m for dilapidations of leased properties. This is the cost expected to be incurred to return the properties back to the landlords at their initial state. The figure is an estimate based on the incurred costs to furnish the properties on commencement of each lease. £0.5m relates to operational risk events identified late in 2019, with the remaining amount representing contractual commitments to investors based on agreements and loans already disbursed on their behalf.

Zopa Limited

Notes to the financial statements (continued)

17. Other Liabilities

	2019	2018
	£000	£000
Other taxation and social security	297	509
Trade creditors	492	4
Other payables	386	456
	1,175	**969**

18. Share Capital

	2019	2018
	£000	£000
Authorised:		
200,000 ordinary shares of £1 each (2018: 200,000)	200	200
Share Capital	**200**	**200**
Allotted and fully paid:		
199,824 ordinary shares of £1 each (2018: 199,824)	200	200
Share Capital	**200**	**200**

As at 31 December 2019, there were 200,000 ordinary £1.00 shares in issue resulting in share capital of £200,000 (31 December 2018: 200,000 shares and £200,000 respectively).

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 as at 31 December 2019 and was 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 the change in control in June 2020, the Directors consider IAG Silverstripe Partners LLC to be the ultimate controlling party (see note 26).

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 (2018: £1).

20. Share based payments

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 Group operates four equity-settled share-based compensation plans, the 2005 Stock Incentive Plan, 2015 Stock Incentive Plan, the Zopa Group Limited Company Share Option Plan (CSOP) and the Zopa Group Limited Joint Share Ownership Plan (JSOP). All instruments vest over time, have a maximum life of 10 years and require a continuous relationship with the Group.

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.

	2005 & 2015 Stock Incentive Plans	CSOP	JSOP	Total	Weighted Average Exercise Price
Outstanding options at 1 January 2018	2,350,065	674,297	-	3,024,362	2.3793
Granted during 2018	-	861,517	708,606	1,570,123	4.6196
Exercised during 2018	(209,265)	-	-	(209,265)	1.1725
Replacement options	(683,989)	10,912	673,077	-	n/a
Lapsed during 2018	(93,621)	(321,368)	(6,754)	(421,743)	3.6616
Balance at 31 December 2018	**1,363,190**	**1,225,358**	**1,374,929**	**3,963,477**	**3.1941**
Granted during 2019	-	350,396	64,198	414,594	4.9501
Exercised during 2019	(239,305)	-	-	(239,305)	0.8980
Lapsed during 2019	(42,529)	(216,636)	(22,401)	(281,566)	4.2479
Balance at 31 December 2019	**1,081,356**	**1,359,118**	**1,416,726**	**3,857,200**	**3.6703**
Range of exercise prices (£)	0.05-3.00	3.00-6.75	3.00-6.75	0.05-6.75	n/a
Weighted average remaining contractual life (years)	5.1	8.5	8.4	7.5	n/a
Exercisable options at 31 December 2019	1,020,016	528,011	975,858	2,523,885	3.1988

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 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.

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. Expected volatility has been set based on the volatility of similar listed companies.

	2019	2018
Expected volatility	35%	35%
Expected life (in years)	5	10
Risk free rate	0.4%-0.6%	1.2%-1.6%

The share-based payment charge in the year was £870k (2018: £1,065k).

21. Commitments and contingencies

Note 14 provides information on financial commitments where the Company is a lessee as per IFRS 16 leases. At the end of the reporting period, the future minimum lease payments under non-cancellable contracts outside the scope of IFRS 16 leases, are payable as follows:

	2019 £000	2018 £000
Purchase commitments		
Under 1 year	-	1,814
Between 1 and 5 years	-	7,039
	-	**8,853**

Significant contracts that existed at 31 December 2018 were novated to another group entity in the year.

22. Related parties

At 31 December 2019 £24k of trade payables is due to the ultimate parent company, Zopa Group Limited (2018: £62k was due from the parent) and £623k is due to Zopa Bank Limited (2018: £275k). Amounts have been settled in full post year end. Additionally, £1,673k is due from the parent company, Zopa Holdings Inc. (2018: £1,671k). All transactions are at arm's length.

A loan of £4,848k is due from a fellow group company, Zopa Bank Limited. The loan is repayable on 30 November 2020, with an option to extend, and bears an arm's length interest equal to the Bank of England base rate plus a 2% margin. Interest income of £132k was recognised during the year in relation to this (2018: £11k). The amount is still outstanding. All transactions are at arm's length.

A loan of £701k is due from the ultimate parent company Zopa Group Limited. The loan is repayable on 24 January 2024, with an option to extend, and bears an arm's length interest equal to the Bank of England base rate plus a 2% margin. Interest income of £1k was recognised during the year in relation to this (2018: £0k). The amount is still outstanding. All transactions are at arm's length.

During the year revenue of £553k was generated from services provided to Zopa Group Limited (2018: £225k) and £6,381k from services provided to Zopa Bank Limited (2018: £8,922k). The Company was charged administrative costs of £12,008k by Zopa Bank Limited (2018: £4,347k). The Company was charged interest of £26k by Zopa Group Limited (2018: £2k) from a loan settled in the year (2018: £2,002k). All transactions are at arm's length.

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

23. Financial Risk Management

(a) Credit risk

Credit risk arises from the Company's borrowers or other counterparties on their loans or obligations. The credit quality of the financial assets has been assessed and 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 partners is assessed prior to and at regular intervals during the relationship. Where available, the external credit rating of partners is monitored.

Maximum exposure to credit risk

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

	2019 £000	2018 £000
Cash and balances with banks	3,860	3,939
Loans and advances to customers	294	815
Amounts due from other group undertakings	7,255	6,560
Other assets	5,934	4,934
Gross credit risk exposure	**17,343**	**16,248**
Less: allowance for credit losses	(96)	(273)
Net credit risk exposure	**17,247**	**15,975**

Zopa Limited

Notes to the financial statements (continued)

Loans and advances to customers

The table below provides analysis of loans and advances to customer by product.

31 December 2019	Total £000
Gross loans and advances to customers	294
less: allowance for credit losses	(96)
Total loans and advances to customers	**198**
Amounts expected to be recovered more than 12 months after the reporting date	163

31 December 2018	Total £000
Gross loans and advances to customers	815
less: loss allowance for impairment losses	(273)
Total loans and advances to customers	**542**
Amounts expected to be recovered more than 12 months after the reporting date	525

ECL allowance

The loss allowance recognised in the year 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.

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Expected Credit Loss allowance 1 January 2019	**23**	**50**	**200**	**273**
Changes reflected in ECL				
Transfer from Stage 1 to Stage 2	(7)	29	-	22
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	6	(18)	-	(12)
New financial asset originations/purchases	261	-	-	261
Changes in PD/ LGD/ EAD	(7)	(3)	66	56
Changes in models/risk parameters	(1)	-	3	2
Discount Unwind	-	-	(29)	(29)
Derecognition/ maturity of financial assets	(264)	(3)	(15)	(282)
Recoveries	-	-	-	-
Net P&L charge during the period	**(12)**	**5**	**25**	**18**
Other movements with no Profit and Loss impact				
Write-offs	-	-	(195)	(195)
Transfer from Stage 2 to Stage 3	-	(48)	48	-
ECL allowance at 31 December 2019	**11**	**7**	**78**	**96**

Zopa Limited

Notes to the financial statements (continued)

	Stage 1	Stage 2	Stage 3	Total
	£000	£000	£000	£000
ECL allowance 1 January 2018	**50**	**108**	**94**	**252**
Changes reflected in ECL				
Transfer from Stage 1 to Stage 2	(25)	96	-	**71**
Transfer from Stage 2 to Stage 1	26	(67)	-	**(41)**
New financial asset originations/purchases	28	-	-	-
Changes in PD/ LGD/ EAD	(18)	10	7	**(1)**
Discount Unwind	-	-	5	**5**
Derecognition/ maturity of financial assets	(10)	(10)	(3)	-
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	-
ECL allowance at 31 December 2018	**23**	**50**	**200**	**273**

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.

	Stage 1	Stage 2	Stage 3	Total
	£000	£000	£000	£000
Gross carrying amount at 1 January 2019	**445**	**128**	**242**	**815**
New financial asset originations/purchases	10,552	-	-	**10,552**
Repayments/derecognition of financial assets	(10,809)	(33)	(29)	**(10,871)**
Transfer from Stage 1 to Stage 2	(79)	78	-	**(1)**
Transfer from Stage 2 to Stage 1	76	(82)	-	**(6)**
Transfer from Stage 2 to Stage 3	-	(70)	70	-
Write-offs	-	-	(195)	**(195)**
Gross carrying amount at 31 December 2019	**185**	**21**	**88**	**294**

	Stage 1	Stage 2	Stage 3	Total
	£000	£000	£000	£000
Gross carrying amount at 1 January 2018	**938**	**285**	**112**	**1,335**
New financial asset originations/purchases	-	-	-	-
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	-
Write-offs	-	-	-	-
Gross carrying amount at 31 December 2018	**445**	**128**	**242**	**815**

The Company does not enter into any netting or offsetting arrangements with counterparties.

Internal rating scales

The credit quality of loans and advances to customers are analysed in the following tables.

31 December 2019	Stage 1	Stage 2	Stage 3	Total
	£000	£000	£000	£000
Lowest risk	12	-	-	12
Medium risk	66	12	16	94
Highest risk	108	10	70	188
Total	**186**	**22**	**86**	**294**

31 December 2018	Stage 1	Stage 2	Stage 3	Total
	£000	£000	£000	£000
Lowest risk	299	62	198	559
Medium risk	21	-	-	21
Highest risk	125	66	44	235
Total	**445**	**128**	**242**	**815**

Forbearance and loan modifications

The Company 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.

At 31 December 2019, total forborne loans were £40k (31 December 2018: £60k), of which £37k (31 December 2018: £44k) were impaired. At 31 December 2019, the allowance for loan losses held in respect of forborne loans was £27.4k (31 December 2018: £13.2k).

(b) 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 limited by managing the maturity profile of its assets and liabilities to avoid material liquidity gaps and holding sufficient liquidity resources to meet its liquidity needs, and minimum regulatory requirements. The liquidity position is monitored on an ongoing basis.

Liquid assets	2019	2018
	£000	£000
Unencumbered cash and bank balances	3,860	3,939
Total liquid assets	**3,860**	**3,939**

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Notes to the financial statements (continued)

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

Assets	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2019	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cash and balances with banks	3,860	-	-	-	-	**3,860**
Loans and advances to customers	-	12	22	164	-	**198**
Amounts due from other group undertakings	-	34	1,673	5,514	-	**7,221**
Other assets	636	2,652	1,179	17,657	-	**22,124**
Total	**4,496**	**2,698**	**2,874**	**23,335**	-	**33,403**

Liabilities	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2019	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Amounts due to banks	21	-	-	-	-	**21**
Amounts due to other group undertakings	647	-	-	-	-	**647**
Lease liabilities	-	-	-	7,498	-	**7,498**
Other liabilities	1,331	2,577	-	1,789	-	**5,697**
Total	**1,999**	**2,577**	-	**9,287**	-	**13,863**

Assets	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2018 (Restated[1])	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cash and balances with banks	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**
Other assets	1,897	932	2,122	8,296	-	**13,247**
Total	**7,571**	**942**	**6,952**	**8,823**	-	**24,288**

Liabilities	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2018 (Restated[1])	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Amounts due 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**

[1] The comparative figures for 2018 have been represented due to the change in presentation. Please refer to note 1 (a) for further details.

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Notes to the financial statements (continued)

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 2019	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Amounts due to banks	21	-	-	-	-	**21**
Amounts due to other Group undertakings	647	-	-	-	-	**647**
Lease liabilities	-	550	1,649	5,741	-	**7,940**
Other liabilities	906	2,161	1,014	1,497	-	**5,578**
Total	**1,574**	**2,711**	**2,663**	**7,238**	**-**	**14,186**

Liabilities 31 December 2018	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Amounts due 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**

(c) Market risk

Market risk is the risk of a reduction in earnings or the economic value of equity, caused by changes in the prices of financial instruments. The Company does not have a trading book. The Company's market risk consists primarily of exposure to changes in interest rates, and change in prices of marketable securities held in liquid assets. Interest rate risk is the risk that the net value of, or net income arising from, the firm's assets and liabilities is impacted as a result of changes to interest rates. Financial Assets are limited to fixed interest rate loans and advances to customers and loans to other group entities.

The impact on economic value of equity ("EVE") from a two percentage point shift in the interest yield curve is as follows:

	2019 £000	2018 £000
2% shift up of the yield curve	(6)	(29)
2% shift down of the yield curve	6	29

(d) Capital risk and management

Capital risk is the risk that the Company has insufficient capital to cover regulatory requirements and/or support its growth plans. The Company's objective when managing capital is to safeguard its ability to continue as a going concern and to meet the FCA regulatory financial resources. Financial performance is regularly reviewed by various committees in the business. The process includes the monitoring of the annual budget and forecasts.

The Company met all external financial resource requirements at year-end.

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Notes to the financial statements (continued)

24. Financial instruments and fair values

All financial instruments are measured at amortised cost. There were no reclassifications of financial assets or liabilities during the year ended 31 December 2019.

The below table shows a comparison of the carrying amounts per the statement of financial position, and the fair values of those financial instruments measured at amortised cost:

		2019		2018
31 December	**Carrying amount £000**	**Fair value £000**	**Carrying amount £000**	**Fair value £000**
Cash and balances with banks	3,860	3,860	3,939	3,939
Loans and advances to customers	198	173	542	542
Amounts due from other Group undertakings	7,221	7,255	6,559	6,559
Total financial assets (at amortised cost)	**11,279**	**11,288**	**11,040**	**11,040**
Amounts due to banks	21	21	-	-
Amounts due to other Group undertakings	647	623	2,276	2,276
Other liabilities	3,084	3,084	-	-
Total financial liabilities (at amortised cost)	**3,752**	**3,728**	**2,276**	**2,276**

Key considerations in the calculation of the disclosed fair values for those financial assets and liabilities carried at amortised cost include the following:

(a) Cash and balances with 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 be not materially different from their fair value.

(b) Loans and advances to customers

For fixed rate lending products, the Company has estimated the fair value of the fixed rate interest cash flows by discounting those cash flows by the current appropriate market reference rate used for pricing equivalent products plus the credit spread attributable to the borrower. Expected credit losses as determined for IFRS 9 purposes are reflected in the fair value amounts.

(c) Amounts due to banks

These relate to payments due in less than 30 days to the credit card provider and the carrying amount is deemed to be a reasonable approximation to their fair value.

The Company does not apply any accounting offsetting between financial assets and financial liabilities.

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Notes to the financial statements (continued)

25. Representation Reconciliation

The tables below show the reconciliation of comparative figures as at 31 December 2018 for financial lines items on the statement of financial position and the income statement.

£000 Assets	PPE	Intangible Assets	Non-current Loans and receivables	Trade, loans and other receivables	Current tax asset	Cash at bank	Total
Cash and balances with banks	-	-	-	-	-	3,939	**3,939**
Loans and advances to customers	-	-	526	16	-	-	**542**
Amounts due from other Group undertakings	-	-	-	6,559	-	-	**6,559**
Prepayments and accrued income	-	-	94	2,667	-	-	**2,761**
Current tax asset	-	-	-	-	1,511	-	**1,511**
Other assets	-	-	1,536	616	-	-	**2,152**
Property, plant and equipment	1,704	-	-	-	-	-	**1,704**
Right of use assets	-	-	-	-	-	-	-
Intangible assets	-	5,120	-	-	-	-	**5,120**
Total Assets	**1,704**	**5,120**	**2,156**	**9,858**	**1,511**	**3,939**	**24,288**

£000 Liabilities	Loans form group undertakings	Trade and other payables	Total
Amounts due to banks	-	99	**99**
Amounts due to other Group undertakings	2,000	276	**2,276**
Accruals and deferred income	-	4,463	**4,463**
Provisions	-	322	**322**
Other liabilities	-	969	**969**
Lease liabilities	-	-	-
Total Liabilities	**2,000**	**6,129**	**8,129**

Items of equity have not been reclassified or restated.

Zopa Limited

Notes to the financial statements (continued)

£000 Income Statement	Revenue	Cost of sales	Distribution expenses	Administrative expenses	Other interest and similar income	Total
Interest Income	181	-	-	-	10	191
Interest Expense	-	-	-	(2)	-	(2)
Net Interest Income	**181**	**-**	**-**	**(2)**	**10**	**189**
Fee and Commission Income	38,251	-	-	-	-	38,251
Other Income	9,147	-	-	-	-	9,147
Fee and Commission Expense	-	(4,311)	(8,813)	(1,349)	-	(14,473)
Total Operating Income	**47,579**	**(4,311)**	**(8,813)**	**(1,351)**	**10**	**33,114**
Administrative Expenses	5	-	-	(36,727)	-	(36,722)
Operating loss before impairment losses	**47,584**	**(4,311)**	**(8,813)**	**(38,078)**	**10**	**(3,608)**

Items below Operating loss before impairment losses have not been reclassified or restated.

26. Post balance sheet events

In June 2020 the parent company Zopa Group Limited had a change of control, hence the ultimate parent company is IAG Silverstripe Partners LLC.

On 15 June 2020 the Company completed the second phase of transferring assets in relation to the banking platform to Zopa Bank Limited, an affiliated entity.

As a result of the coronavirus events and the subsequent impact on the economy, management has assessed, and continues to assess, the resulting risk and uncertainties with appropriate and mitigation actions taken. These are disclosed in the risks and uncertainties of the strategic report. Management has also assessed whether any assets as at 31 December 2019 may need impairment as a result of the impact on the economy and concluded that such impairment was not necessary. Post year end and as a result of the coronavirus, it might be necessary to impair certain intangible assets that are not included in the asset transfer but it is not possible to estimate the impact at this point in time.