

Registered number: 05197592

Zopa Limited
Annual Report and Financial Statements
for the year ended 31 December 2020



Zopa Limited

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Zopa Limited

Directors and professional advisers

Directors

Christine Farnish (Chair of Board)
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

Zopa Limited (Zopa P2P) ("the Company", the entity referred to as 'we' or 'us' for the purposes of this Strategic report) is a private limited liability company registered in England and Wales and is authorised and regulated by the Financial Conduct Authority (FCA). The Company operates a consumer-focused marketplace lending platform which allows retail investors and institutional investors to lend their funds to pre-screened individual consumers or purchase loan contracts made by other investors to such consumers.

Review of 2020

Group and Company Developments

Zopa Limited is a subsidiary of Zopa Group Limited and together with Zopa Bank Limited forms the overall Zopa Group.

In June 2020 Zopa Group Limited secured £140 million investment by IAG Silverstripe and injected the majority of these funds into Zopa Bank Limited enabling the full launch of Zopa Bank in and the further diversification of the Group's funding strategy. As a consequence of this development the overall availability of loans for matching on the P2P platform reduced due to the Group's strategy to allocate part of its loan platform volumes to the Bank.

The Company moved from upfront fee as the primary revenue source to a loan servicing fee spread over the lifetime of the loan. Whilst the lifetime fee revenue for a given loan is largely the same, the timing of the fee recognition resulted in significantly lower revenue generation for P2P in 2021.

Change in Operating model

In June 2020 the Company sold a set of intangible technology assets associated with facilitating the acquisition and origination of Unsecured Personal Loans to Zopa Bank Limited. Consideration for the acquisition was £6,938k which was in excess of the net book value of £6,308k at which the assets were held on the Company's balance sheet. In addition property plant and equipment was sold for a consideration, equal to the net book value, of £630k.

Also in June 2020, the Company transferred the majority of its staff to Zopa Bank Limited through a Transfer of Undertakings (Protection of Employment) (TUPE) process for which the Company received £1,538k from Zopa Bank Limited. This was recognised as a gain in the income statement. The payment received compensated the Company for the costs of hiring and training the highly skilled workforce whilst the TUPE process ensured the Company would still benefit from the skills and experience of the staff.

Total consideration for the above June 2020 transactions was £9,106k, amounts in excess of the assets net book value are recognised as a gain on disposal of business.

After the asset and transfer of staff to Zopa Bank Limited, the Company entered into an Intra-Group Outsourcing Agreement (IGA) for the provision of services for which the costs are recognised as an Intercompany Expense. The scope of the agreement covers the operational and IT servicing associated with loan origination and ongoing servicing of the P2P portfolio of loans, as well as other shared back-office services from Zopa Bank Limited e.g. Finance and HR. Zopa P2P continues to maintain ownership of product intent and operational control of P2P-specific products as well as its own governance.

Following the asset and staff transfer the Company's loan origination and the equitable assignment of loans moved to being performed by Zopa Bank Limited with matching to investors on Zopa Limited's platform continuing to be performed by Zopa Limited.

The change in operating model was made to ensure that shared services and processes would only need to be undertaken in a single Group entity and enables the Company to benefit from the overall Group economies of scale and the processes and controls established in Zopa Bank Limited.

Zopa Limited

Strategic report (continued)

Coronavirus (COVID-19)

The development of the Coronavirus pandemic from Q1 2020 onwards impacted the Company in a variety of ways. The Company was able to display its agility in our swift response to support our existing customers and adapt our lending criteria to continue to serve new customers. The Company's response included:

- We moved all staff to remote working in March 2020 and successfully operated for the majority of 2020 with full remote working of all staff without any operational impacts. Both prior to the transfer of staff and assets to Zopa Bank Limited, and subsequently through the receipt of outsourcing services high levels of customer service were maintained throughout the pandemic.
- We continually reviewed underwriting policies and credit decisions and adapted quickly to tighten lending criteria based on the development of the pandemic and moves we were seeing in the market. The Group's online acquisition and fulfilment processes meant that lending decisions and paying out of loans suffered no interruptions.
- Over the course of 2020 the Company benefited from significant further development of the Group's online servicing capabilities through the website and app. This further enabled customers to go get the best possible service and drove a significant increase in customers using the app.
- We focused on assessing the individual situation of our loans customers and doing our best to find a solution which works for them. This encompassed a range of options including reduced payment plans and periods where payments were suspended. We have a specialist in-house team to support these customers and also work closely with consumer debt charities to ensure that customers have good, impartial advice and support.

We are enormously proud that we maintained our high levels of service through the pandemic, operating remotely and quickly building new customer journeys and tools to ensure that we performed within our service SLAs for all but three days of the pandemic. During the height of pandemic in 2020 (1 March – 12 June), 96% of our Trustpilot reviews were either 4 or 5 star.

On the investor side, we have been able to continue to deliver positive returns to P2P investors despite the COVID-19 impact on the performance of the loans. Whilst there was an initial liquidity event in March 2020, Zopa P2P was ultimately able to provide access to customer funds whilst retaining c. 95% of retail investors.

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 2020, including:

Moneyfacts Consumer Awards	WINNER: Personal Loan Provider of the year
Moneyfacts Consumer Awards	WINNER: P2P Provider of the year
Moneyfacts Consumer Awards	HIGHLY COMMENDED: Best Customer Service
Finders.com	HIGHLY COMMENDED: Loans Customer Satisfaction
British Bank Awards	Best Personal Loan Provider
Fairer Finance	Gold Ribbon - Customer Experience 4th
Fairer Finance	Gold Ribbon - Customer Experience 3rd

The Company's Net Promoter Score (NPS) was 76 in 2020 (2019:77).

Zopa Limited

Strategic report (continued)

Business environment

Our experience and agility as a business allowed us to both continue lending and to deliver positive returns to our investors throughout the pandemic. This was partly enabled by our approach to continually reviewing credit risk based on market factors. In late 2019 and early 2020, we had tightened our lending criteria twice based on economic indicators and as COVID-19 emerged, we were able to act quickly to tighten our lending criteria further based on the impact we were seeing in the market.

The Company continues to maintain tightened lending criteria and is closely monitoring the external macroeconomic conditions and consumer credit impact.

Key Performance Indicators ("KPIs")

The overall progress of the Company against its targets is monitored at Board meetings. Performance during the year, together with prior year comparatives, is summarised below:

£000	Year ended 31 December 2020	Year ended 31 December 2019	Comments
Fee and Commission Income	22,372	46,252	Fee and commission income is the income received from acquiring and servicing loans. The reduction in the year arose from the reduction in new lending volumes due to the impacts of Covid-19 and the launch of Zopa Bank, and from the move from charging upfront fees at loan acquisitions to an increased loan servicing fee.
Fee and Commission Expense	(5,919)	(12,833)	Fee and commission expense relates to fees paid to third parties for originating loans. The reduction in the year arose primarily from the reduction in new lending volumes due to the impacts of Covid-19 and the launch of Zopa Bank and from the spreading of loan acquisition costs to match the move away from charging upfront fees at the point of loan origination.
Administrative Expenses	(33,018)	(39,663)	Administrative expenses include costs of running the business such as staff costs, IT costs, marketing expenses, premises, intercompany recharges, depreciation and amortisation. The reduction in the year arose from the reduction in lending volumes and from cost reduction activities.
Total Operating Income	23,569	40,263	Total operating income is the net income received from financial instruments and related fees and commissions, and other income.
(Loss)/Profit Before Tax	(8,514)	575	(Loss) / profit before tax is the profit for the year before including any income/expenses in relation to taxes. The worse performance in 2020 arose from the reduction in lending volumes and from the move away from charging upfront fees.

Zopa Limited

Strategic report (continued)

£000	Year ended 31 December 2020	Year ended 31 December 2019	Comments
Gain/ (Loss) on sale of assets	2,168	(7)	Increase relates to the transfer of technology assets and staff to Zopa Bank Limited as part of group restructuring which resulted in an excess over the net carrying value.
Total Equity	9,272	19,540	Total Equity is comprised of share capital, reserves and accumulated losses. The reduction primarily relates to the loss for the year.

Financial Performance

2020 loan originations and financial performance were impacted by the Covid-19 pandemic and the aforementioned full launch of Zopa Bank. At the start of 2020 new monthly lending volumes matched those achieved in 2019. However, for the full year 2020 total loan originations fell to £456m (2019: £1,079m). As noted in the table of KPIs the impact of reduced lending volumes and the move away from upfront fees resulted in a revenue reduction of over 50%. Actions were taken to reduce the cost base. The Company recorded a loss for the year of (£8.9) million (2019: Profit £2.7 million) but due to its strong opening equity position remained well capitalised at the end of 2020. As a result of the above and in conjunction with future plans the Company impaired intangible assets of £1.2m.

Plans for the future

Our key priority in 2021 will be continuing to provide great value products for our P2P borrowers and investors, in a way that is simple to use and understand for customers. We will also continue to optimise the existing business, using the intra-group outsourcing agreement to ensure that the Company can benefit from the efficiencies of scale of Zopa Bank. The Directors are also considering the future direction of the Company, further details of which can be found in the going concern section of the Directors report and in Note 1 to the Financial Statements.

Section 172 Disclosure

The Company complies with Section 172 of the Companies Act. Throughout 2021, 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 pages 10-11), 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 relevant.

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.

Zopa Limited

Strategic report (continued)

- **Three Lines of Defence:** In the first line, business areas are responsible for implementing policies and procedures to manage risk; in the second line, the risk and compliance functions monitor performance of the first line; a third line of internal audit acts 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.

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.	<ul style="list-style-type: none"> • Operate in selected sectors, where we have expertise. • Consistently apply the approved credit policy, and price credit facilities for risk. • 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 investors' stated risk appetite.
Financial risk The risk that the Company has insufficient resources (capital and liquidity) to support its business model and strategy.	<ul style="list-style-type: none"> • 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 or outsourced supplier performance, including from the performance of Zopa Bank. Includes 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 including those in relation to client money) and conduct risk (the risk that the Company's actions result in poor customer outcomes).	<ul style="list-style-type: none"> • 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. • Implement a formal agreement for Intra-Group outsourcing performed by Zopa Bank Limited and perform regular monitoring of performance against the service levels set. • 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. • Ongoing focus on treating customers fairly regardless of strategic direction.

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Strategic report (continued)

Risk Type	Mitigation
Strategic risk The risk of opportunity loss from the failure to optimise the earnings potential of the Zopa franchise.	<ul style="list-style-type: none"> • Maintain a Board and Management Committee composed of skilled and experienced individuals. • Conduct periodic strategic planning exercises and hold regular Board strategy discussions.

Principal Uncertainties

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

Theme	Risk	Mitigation
Prolonged or permanent reduction of new lending volumes from the Group's platform	A prolonged or permanent reduction of new lending volumes could occur due to the ongoing impacts of Covid-19 and/or the Group's strategic focus on developing Zopa Bank, resulting in a long term decline in scale and profitability of the Company.	<ul style="list-style-type: none"> • Ongoing strategic engagement between the Zopa Limited Board and the Zopa Group Board • Ongoing focus and monitoring of actual and forecast capital and liquidity against financial plans
Prolonged or worsening UK economic downturn	A prolonged worsening UK macroeconomic downturn, due to a weaker than expected recovery from the Covid pandemic, could result in a worse than expected credit performance.	<ul style="list-style-type: none"> • Credit applications assessed in the light of potential stress scenarios • Ability to flex credit policy • Regular monitoring to allow rapid response to signs of a worsening macro environment
Significant decline of P2P reputation	A significant number of P2P competitors failing, as a result of fallout from the Covid pandemic or otherwise, could result in loss of confidence in the P2P industry with customers leaving the platform, leading to liquidity constraints and a drop in valuation.	<ul style="list-style-type: none"> • Ongoing proactive and reactive engagement with regulators and media
Major cyber or IT incident	A major cyber attack or IT outage could prevent Zopa providing its critical business services, leading to customer harm, loss of revenue and reputational damage.	<ul style="list-style-type: none"> • 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 Zopa Bank Limited to adequately provide outsourcing services	A failure or defect in the provision of outsourcing services for critical functions for the Company could impact the origination of new loans, cause service outages, customer detriment or regulatory breaches.	<ul style="list-style-type: none"> • Intra-Group Outsourcing Agreement (IGA) in place with Zopa Bank Limited and regular monitoring of performance against agreed service levels

The financial statements on pages 18 to 48 were approved by the Board of Directors on 28 June 2021 and signed on its behalf by:

DocuSigned by:

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 Natasha Wear
 Director
 06 July 2021

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.

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. Following the completion of the TUPE process and staff transfer to Zopa Bank

Zopa Limited

Corporate Governance (continued)

Limited the focus of the Board evolved to include oversight of the outsourcing provided by Zopa Bank, including consideration of whether the culture is maintained.

The Company has oversight of employees working on P2P specific activities through the intragroup outsourcing agreement. This includes monitoring internal communication and engagement of staff. For the remaining 14 employees of Zopa P2P, management ensure that employees remain well informed on the Company's strategy and decisions that impact them. These employees also have access to all shared services including HR which are provided through the Bank entity.

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 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.

Climate change

The Company does not operate within an industry that promotes a heavy carbon footprint, and as a branchless business our environmental impact is comparatively low. Since the start of the COVID-19 pandemic, a majority of staff have been able to work from home during 2020 which has further limited the Company's carbon footprint. When staff are working from the office, recycling is widely encouraged and we encourage colleagues to take environmentally conscious decisions where possible.

The Board is made aware of relevant developments in environmental legislation and ensures that the financial risks from climate change are embedded into the management of risk across the Company.

In accordance with the environment reporting guidelines, including streamlined energy and carbon reporting guidance issued in March 2019, the Company has taken the exemption of reporting on energy and carbon reporting. The immediate parent company, Zopa Group Limited, provides the appropriate disclosure at group level, which includes the results of the Company.

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. Following the transfer of the majority of operations to Zopa Bank Limited, the majority of the suppliers are managed by Zopa Bank Limited.

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.

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Directors' report for the year ended 31 December 2020

The Directors present their annual report and audited financial statements of the Company for the year ended 31 December 2020. 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
Natasha Wear
Michael Woodburn

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 lower demand for borrowing, thus contributing to lower growth.

The Directors are considering the future direction of the Company, including exploring the option to wind down the retail peer to peer business and to cease new retail funded lending. This would result in no further retail peer to peer lending and a payback over time of investors' funds.

No decisions have yet been taken regarding future plans, but the Directors have assessed the financial position of the Company taking into account how the event of wind down would impact the retail peer to peer business. In their assessment the Directors have considered two alternative scenarios. Under the first scenario Zopa Limited would be sold to a related party who would execute the wind down of the retail peer to peer business. Under the second scenario the Company would remain a subsidiary of Zopa Group Limited during the expected duration of the wind down. Under both scenarios, the Company is expected to have sufficient financial resources to continue as a going concern until at least the end of December 2022. However, the potential for the wind down of the retail peer to peer business to occur through a sale of the Company creates a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern because were this to happen, the Zopa Group will no longer be in control of the Company. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

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.

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Directors' report for the year ended 31 December 2020 (continued)

Donations

The Company made no political donations in 2020 (2019: 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 to ensure their needs are met. 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 to the financial statements.

Statement of Directors responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation. Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the Accounting Standards Board (IASB) in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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 international accounting standards in conformity with the requirements of the Companies Act 2006 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.

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Directors' report for the year ended 31 December 2020 (continued)

Directors' indemnities

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

Independent auditors

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

The financial statements on pages 18 to 48 were approved by the Board of Directors on 28 June 2021 and signed on its behalf by:

DocuSigned by:

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Natasha Wear
Director
06 July 2021

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 2020 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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 2020; the income statement, statement of cash flows and 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.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1(c) to the financial statements concerning the company's ability to continue as a going concern. The Directors are considering the future direction of the company, including the option to wind down its retail peer to peer operations and/or sell the business, although no decisions have yet been taken regarding the future plans. These conditions, along with the other matters explained in note 1(c) to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

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

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

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed,

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

we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the relevant rules of the Financial Conduct Authority (FCA), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue. Audit procedures performed by the engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the entity's whistleblowing helpline and the results of management's investigation of such matters;

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

- Reading correspondence with the FCA;
- Reading minutes of the board to identify any matters of audit relevance; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations e.g. journals that increases revenue with unusual corresponding entries or journal entries posted by senior management.

There are Inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Nick Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
06 July 2021

Zopa Limited

Income Statement for the year ended 31 December 2020

		31 December 2020 £000	31 December 2019 £000
Interest Income	Note 4	209	194
Interest Expense	5	(205)	(285)
Net Interest income / (Expense)		4	(91)
Fee and Commission Income		22,372	46,252
Fee and Commission Expense		(5,919)	(12,833)
Net Fee and Commission Income		16,453	33,419
Other Income	6	7,112	6,935
Total Operating Income		23,569	40,263
Administrative Expenses	7	(33,018)	(39,663)
Operating (Loss)/Profit Before Impairment Losses		(9,449)	600
Gain/(Loss) on disposal of business	22	2,168	(7)
Impairment gains/ (losses) on loans and advances to customers		7	(18)
Impairment of other assets	16	(1,240)	-
(Loss)/Profit before Taxation		(8,514)	575
Taxation	11	(374)	2,083
(Loss)/Profit after Tax - Attributable to Equity Holders		(8,888)	2,658

The notes on pages 22-48 form part of these financial statements.

The operating (loss)/profit of the Company are derived from continuing operations in the current and prior year. No other comprehensive income items were recorded during the year (2019: nil).

Zopa Limited

Statement of Financial Position as at 31 December 2020

	Note	31 December 2020 £000	31 December 2019 £000
Assets			
Cash and balances with banks		4,779	3,860
Loans and advances to customers	12	83	198
Amounts due from other Group undertakings	22	6,244	7,221
Prepayments and accrued income		1,188	1,827
Other assets	13	2,644	2,272
Current tax asset		720	2,976
Property, plant and equipment	14	52	1,041
Right of use assets	15	5,102	6,852
Intangible assets	16	-	7,156
Total Assets		20,812	33,403
Liabilities			
Amounts due to banks		151	21
Amounts due to other Group undertakings	22	3,063	647
Accruals and deferred income		941	2,451
Provisions	17	1,154	2,071
Other liabilities	18	733	1,175
Lease liabilities	15	5,498	7,498
Total Liabilities		11,540	13,863
Equity			
Share capital	19	200	200
Share premium		5,816	5,816
Other reserves		44,271	45,651
Accumulated losses		(41,015)	(32,127)
Total Equity		9,272	19,540
Total Liabilities and Equity		20,812	33,403

The notes on pages 22-48 form part of these financial statements.

Other reserves consist of a share based payments reserve and a capital contribution reserve.

The financial statements of Zopa Limited (Registered Number 05197592) were approved by the Board of Directors on 28 June 2021 and were signed on its behalf by:

DocuSigned by:

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Natasha Wear
 Director
 06 July 2021

Zopa Limited

Statement of changes in equity for the year ended 31 December 2020

	Note	Share Capital £000	Share Premium £000	Other Reserves £000	Accumulated Losses £000	Total Shareholders' Equity £000
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						
Share based payment charge	21	-	-	870	-	870
Total transactions with owners		-	-	870	-	870
Balance at 31 December 2019		200	5,816	45,651	(32,127)	19,540
Balance at 1 January 2020		200	5,816	45,651	(32,127)	19,540
Comprehensive expense						
Loss for the year		-	-	-	(8,888)	(8,888)
Total comprehensive expense		-	-	-	(8,888)	(8,888)
Transactions with owners						
Share based payment charge	21	-	-	238	-	238
Capital contribution	22	-	-	(1,618)	-	(1,618)
Total transactions with owners		-	-	(1,380)	-	(1,380)
Balance at 31 December 2020		200	5,816	44,271	(41,015)	9,272

The notes on pages 22-48 form part of these financial statements.

Other reserves consist of a share based payments reserve and a capital contribution reserve, see notes 21 and 22 for further details.

Zopa Limited

Statement of cash flows for the year ended 31 December 2020

	Note(s)	2020 £000	2019 £000
Cash flows from operating activities			
(Loss) / profit before taxation		(8,514)	575
Adjustments for:			
Change in operating assets		897	1,158
Change in operating liabilities		(1,970)	(135)
Payment of lease liabilities	15	(2,205)	(1,999)
Non-cash and other items		1,800	5,913
Taxation received		1,741	617
Net cash (used in)/ generated from operating activities		(8,251)	6,129
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(50)	(348)
Purchase of intangible assets	16	(1,099)	(3,689)
Proceeds from disposal of non-current assets	16	6,926	-
Interest received	4	-	13
Net cash generated from/ (used in) investing activities		5,777	(4,024)
Cash flows from financing activities			
Change in intercompany loan balances	22	3,386	(2,291)
Interest received on intercompany loans	4, 22	7	107
Net cash generated from/ (used in) financing activities		3,393	(2,184)
Net increase/(decrease) in cash and cash equivalents		919	(79)
Cash and cash equivalent at the start of the year		3,860	3,939
Movement during the year		919	(79)
Cash and cash equivalents at the end of the year		4,779	3,860
Cash and cash equivalents consists of:			
Cash and balances with banks		4,779	3,860
Cash and cash equivalent at the end of the year		4,779	3,860

The notes on pages 22-48 form part of these financial statements.

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 international accounting standards in conformity with the requirements of the Companies Act 2006 ("IFRS") and the applicable legal requirements of the Companies Act 2006.

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

(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, 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 lower demand for borrowing, thus contributing to lower growth.

The Directors are considering the future direction of the Company, including exploring the option to wind down the retail peer to peer business and to cease new retail funded lending. This would result in no further retail peer to peer lending and a payback over time of investors' funds.

No decisions have yet been taken regarding future plans, but the Directors have assessed the financial position of the Company taking into account how the event of wind down would impact the retail peer to peer business. In their assessment the Directors have considered two alternative scenarios. Under the first scenario Zopa Limited would be sold to a related party who would execute the wind down of the retail peer to peer business. Under the second scenario the Company would remain a subsidiary of Zopa Group Limited during the expected duration of the wind down. Under both scenarios, the Company is expected to have sufficient financial resources to continue as a going concern until at least the end of December 2022. However, the potential for the wind down of the retail peer to peer

Zopa Limited

Notes to the financial statements (continued)

business to occur through a sale of the Company creates a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern because were this to happen, the Zopa Group will no longer be in control of the Company. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

(d) Presentation of risk and capital disclosures

Principal risks and uncertainties are disclosed in the Strategic Report, 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

There are no new or amended standards adopted by the Company for the year ended 31st December 2020.

Other amendments effective on 1 January 2020

The following amendments became effective on 1 January 2020, but have no impact on the financial statements as the Company does not have any activity or products relating to them:

- Revised Conceptual Framework for Financial Reporting
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

Definition of a Business (Amendments to IFRS 3) also became effective on 1 January 2020, in accordance with the amendment the June 2020 transfer of assets to a related party has been classified as the disposal of a business. The accounting treatment is unchanged from that of the disposal of assets.

(g) New standards, amendments and interpretations issued but not mandatory effective before 31 December 2020

The following amendments are effective for annual periods beginning on or after 1 January 2021 and there is no financial impact of these standards at present, however the Company will review and assess any impact in the future:

- COVID-19-Related Rent Concessions (Amendment to IFRS 16)
- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018–2020
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

Zopa Limited

Notes to the financial statements (continued)

- Reference to the Conceptual Framework (Amendments to IFRS 3)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- IFRS 17 Insurance Contracts, amendments to definitions to IAS1 and IAS 8 and amendments to IFRS 3 – Definition of a business
- Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28

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 and expense

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 and the upfront fee is recognised when the borrower accepts the loan.

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.

(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

Zopa Limited

Notes to the financial statements (continued)

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) Financial instruments

Recognition of financial instruments

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.

Derecognition of financial instruments

Financial assets are derecognised when and only when:

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

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

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

Classification of financial assets

There are three principal classification categories for financial assets:

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

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

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

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

Zopa Limited

Notes to the financial statements (continued)

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.

Measurement of financial assets

Financial assets measured at amortised cost are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, these are measured at amortised cost using the EIR method. The amortised cost is the amount advanced less principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the amount advanced and the maturity amount, less 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 measured at fair value through other comprehensive income nor at fair value through profit or loss.

Financial liabilities

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, with the exception of derivatives, 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.

Derivatives

Derivative financial instruments are mandatorily classified as fair value through profit or loss. Derivatives are classified as financial assets where their fair value is positive and financial liabilities where their fair value is negative. Where the counterparties are under common control derivatives are initially recognised in equity as a capital contribution with subsequent fair value movements through profit and loss. To calculate fair values, the Company uses discounted cash flow models, further details of fair values can be found in note 24.

Impairment of financial assets

This policy applies to:

- financial assets measured at amortised cost

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). Expected credit loss (ECL) is the product of these 3 values.

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

Zopa Limited

Notes to the financial statements (continued)

addressing the requirements of the standard are discussed below:

Significant increase in credit risk (SICR) - Movement from Stage 1 to Stage 2

The Company considers a financial instrument to have experienced a SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

Quantitative Criteria

The remaining lifetime PD at the reporting date has increased 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.

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 unlikelihood 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.

Write-Off and Recoveries

Write-off shall occur when either part, or all, of the outstanding debt is considered irrecoverable and all viable options to recover the debt have been exhausted. Any amount received after a provision has been raised or debt has been written-off, will be recorded as a recovery and reflected as a reduction in the impairment loss reflected in the income statement.

(e) Leases

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.

Zopa Limited

Notes to the financial statements (continued)

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.

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.

(f) 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.

Zopa Limited

Notes to the financial statements (continued)

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.

(g) 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.

(h) 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.

(i) 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.

(j) 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

Zopa Limited

Notes to the financial statements (continued)

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.

(k) 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.

(l) 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.

Zopa Limited

Notes to the financial statements (continued)

(m) 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.

(n) 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, the Zopa Group Limited Joint Share Option Plan, the Non-Tax Advantaged Share Option Plan and the Management Incentive 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.

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

(o) 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.

(p) Government Grants

Coronavirus Job Retention Scheme grants of £153k (2019: £nil) are included in the Administrative Expenses line item. There are no unfulfilled conditions or other contingencies attaching to these grants. The group did not benefit directly from any other forms of government assistance.

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. See note 8 for further details.

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.

(a) Share based payments (estimate)

The Company has used the Black Scholes valuation model to estimate the fair value of share-based payments. The inputs used in the Black Scholes model are disclosed in Note 21.

Zopa Limited

Notes to the financial statements (continued)

(b) Derivatives (judgement and estimate)

Derivatives are financial liabilities and relate to the fair value of yield commitments payable to institutional investors and other Group undertakings. Those with related parties are recognised in Amounts due to other Group undertakings. Where the counterparties are under common control derivatives are initially recognised in equity as a capital contribution with subsequent fair value movements through profit and loss.

Derivatives with external counterparties are recognised in Other liabilities.

4. Interest Income

	Note	2020 £000	2019 £000
Interest income under the effective interest method on:			
- Cash and cash equivalent		-	13
- Loans and advances to customers at amortised cost		24	48
- Loans and advances to other group undertakings at amortised cost	22	185	133
Total interest income arising from financial assets measured at amortised cost		209	194

5. Interest Expense

	Note	2020 £000	2019 £000
Interest expense under the effective interest method on:			
- Financial liabilities from other group undertakings	22	-	26
- Lease liabilities	15	205	259
Total interest expense arising from financial liabilities measured at amortised cost		205	285

6. Other income

	Note	2020 £000	2019 £000
Intercompany recharges	22	7,112	6,935
Total other income		7,112	6,935

7. Administrative expenses

	Note(s)	2020 £000	2019 £000
Staff Costs	8	9,151	16,620
Information Technology		2,414	3,801
Intercompany recharges		15,604	12,008
Legal and Professional		983	1,102
Depreciation	14, 15	2,158	2,753
Amortisation	16	706	1,653
Other		2,002	1,726
Total administrative expenses		33,018	39,663

Zopa Limited

Notes to the financial statements (continued)

8. Staff Costs

		2020	2019
	Note	£000	£000
Wages and salaries		7,737	13,697
Social Security costs		830	1,519
Other pension costs		346	534
Share based payments	21	238	870
Total staff costs		9,151	16,620

Wages and salaries are reduced by government grants in relation to COVID-19 totalling £153k (2019: nil). There are no unfulfilled conditions attached to these grants. Pension costs relate to amounts paid into defined contribution pension schemes. The average monthly number of persons (including Directors) employed during the year was:

	2020	2019
	Number	Number
Loan operations and servicing staff	86	157
Administration	49	82
Total staff	135	239

9. Directors' Remuneration

	2020	2019
	£000	£000
Directors' emoluments	271	392
Payments in respect of personal pension plans	8	9
Share-based compensation arrangement	89	53
	368	454

Highest paid Director

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

	2020	2019
	£000	£000
Emoluments	66	169
Payments in respect of personal pension plans	3	5
Share-based compensation arrangement	76	30
	145	204

10. The Company's Auditors

	2020	2019
	£000	£000
Services provided by the Company's auditors (excluding VAT):		
Fees payable to the Company's auditors for the audit of the financial statements	71	67
Audit related assurance services	105	109
Other assurance services	86	74
	262	250

Zopa Limited

Notes to the financial statements (continued)

11. Taxation

a) Tax charge / (credit)

	2020 £000	2019 £000
Current tax credit on (loss)/ profit for the year	-	(1,098)
Over/(under) provision in previous periods	374	(985)
Total current tax charge / (credit)	374	(2,083)
Deferred Tax not recognised	-	-
Under provision in previous periods	-	-
Total deferred tax charge	-	-
Total tax charge / (credit)	374	(2,083)

Tax credits relate to research and development. At Summer Budget 2015, the government announced legislation setting the Corporation Tax main rate (for all profits except ring fence profits) at 19% for the years starting 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020. A further reduction to 17% for the year starting 1 April 2020 was announced at Budget 2016.

At Budget 2020, the government announced that the Corporation Tax main rate (for all profits except ring fence profits) for the years starting 1 April 2020 and 2021 would remain at 19%. 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

	2020 £000	2019 £000
(Loss) / Profit before tax	(8,514)	575
Tax at 19% (2019: 19.00%)	(1,618)	109
Expenses not deductible for tax purposes	74	167
Over / (under) provision in previous periods	374	(985)
R&D tax credit	-	(1,098)
Losses for which no deferred tax asset is recognised	1,659	-
Other differences	(115)	(276)
Total tax charge / (credit)	374	(2,083)

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

	2020 £000	2019 £000
Deductible temporary differences	283	-
Tax losses carried forward	7,504	4,803
	7,787	4,803

Zopa Limited

Notes to the financial statements (continued)

12. Loans and advances to customers

	Note	2020 £000	2019 £000
Gross loans and advances to customers	23	121	294
less: allowance for impairment losses	23	(38)	(96)
Total loans and advances to customers		83	198

13. Other Assets

	2020 £000	2019 £000
Rental Deposits	1,536	1,536
Deferred expenses	945	-
Supplier refunds due	-	641
Other assets	163	95
	2,644	2,272

14. Property, plant and equipment

	Office Equipment £000	Fixtures and fittings £000	Total £000
Cost			
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
Balance at 1 January 2020	2,459	1,323	3,782
Additions	50	-	50
Transferred to a related party	(2,509)	(335)	(2,844)
Balance at 31 December 2020	-	988	988
Accumulated depreciation			
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
Balance at 1 January 2020	1,624	1,117	2,741
Depreciation charge for the year	269	139	408
Transferred to a related party	(1,893)	(320)	(2,213)
Balance at 31 December 2020	-	936	936
Carrying amounts			
Balance at 31 December 2018	1,201	503	1,704
Balance at 31 December 2019	835	206	1,041
Balance at 31 December 2020	-	52	52

Zopa Limited

Notes to the financial statements (continued)

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year ended 31 December 2020 (31 December 2019: nil).

Assets with historic cost of £634k have fully depreciated but are still in use (2019: £334k).

15. Leases as a lessee

Information about the leases for which the Company is a lessee is presented below. Leases all relate to leasehold property.

a) Right-of-use assets

	Leasehold Property £000	Total £000
Balance at 1 January 2019	8,601	8,601
Depreciation charge for the year	(1,749)	(1,749)
Balance at 31 December 2019	6,852	6,852
Balance at 1 January 2020	6,852	6,852
Depreciation charge for the year	(1,750)	(1,750)
Balance at 31 December 2020	5,102	5,102

b) Lease Liabilities

	Leasehold Property £000	Total £000
Balance at 1 January 2019	9,238	9,238
Interest charge for the year	259	259
Payments during the year	(1,999)	(1,999)
Balance at 31 December 2019	7,498	7,498
Balance at 1 January 2020	7,498	7,498
Interest charge for the year	205	205
Payments during the year	(2,205)	(2,205)
Balance at 31 December 2020	5,498	5,498

	2020 £000	2019 £000
Current	(2,057)	(1,995)
Non-current	(3,441)	(5,503)
Total	(5,498)	(7,498)

	2020 £000	2019 £000
Maturity analysis - contractual undiscounted cashflows		
Less than one year	(2,199)	(2,198)
One to five years	(3,542)	(5,741)
Total undiscounted lease liabilities	(5,741)	(7,939)

Zopa Limited

Notes to the financial statements (continued)

c) Amounts recognised in the income statement

	2020 £000	2019 £000
Interest on lease liabilities	205	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

	2020 £000	2019 £000
Total cash outflows for leases	2,205	1,999

16. Intangible assets

	Purchased software £000	Internally generated £000	Total £000
Cost			
Balance at 1 January 2019	646	7,385	8,031
Additions	-	3,689	3,689
Balance at 31 December 2019	646	11,074	11,720
Balance at 1 January 2020	646	11,074	11,720
Additions	-	1,099	1,099
Impairment/ write down	-	(2,228)	(2,228)
Transferred to a related party	(646)	(9,945)	(10,591)
Balance at 31 December 2020	-	-	-
Accumulated amortisation			
Balance at 1 January 2019	396	2,515	2,911
Amortisation charge for the year	197	1,456	1,652
Balance at 31 December 2019	593	3,971	4,564
Balance at 1 January 2020	593	3,971	4,564
Amortisation charge for the year	40	666	706
Impairment/ write down	-	(988)	(988)
Transferred to a related party	(633)	(3,649)	(4,282)
Balance at 31 December 2020	-	-	-
Carrying amounts			
Balance at 1 January 2019	250	4,870	5,120
Balance at 31 December 2019	53	7,103	7,156
Balance at 31 December 2020	-	-	-

Zopa Limited

Notes to the financial statements (continued)

17. Provisions

	Total £000
As at 1 January 2019	322
Provided during the year	1,749
Balance at 31 December 2019	2,071
Balance at 1 January 2020	2,071
Released during the year	(917)
Balance at 31 December 2020	1,154

Provisions includes £678k for dilapidations of leased properties (2019: £678k). 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. £476k relates to operational risk events in relation to loans disbursed in the year (2019: £574k). The remaining 2019 amount represents contractual commitments to investors based on agreements and loans already disbursed on their behalf.

18. Other Liabilities

	2020 £000	2019 £000
Other taxation and social security	25	297
Trade creditors	78	492
Derivative	148	-
Other payables	482	386
	733	1,175

Derivative relates to the fair value of yield commitments payable to institutional investors. Further details on fair values can be found in note 24.

19. Share Capital

	2020 £000	2019 £000
Authorised:		
200,000 ordinary shares of £1 each (2019: 200,000)	200	200
Share Capital	200	200
Allotted and fully paid:		
199,824 ordinary shares of £1 each (2019: 199,824)	200	200
Share Capital	200	200

As at 31 December 2020, there were 199,824 ordinary £1.00 shares in issue resulting in share capital of £200k (31 December 2019: 199,824 shares and £200k respectively).

20. Ultimate parent undertaking and controlling party

Zopa Group Limited (UK Company number 10624955) holds 100% of the issued capital of Zopa Limited as at 31 December 2020 and was therefore regarded as the immediate parent undertaking. Zopa Group Limited prepares

Zopa Limited

Notes to the financial statements (continued)

consolidated financial statements, including the results of the Company, which are available from Companies House, for all Company entities.

Following the change in control in June 2020, the Directors consider IAG Silverstripe Partners LLC (incorporated in the United States of America) to be the ultimate controlling party. Prior to this Zopa Group Limited was the ultimate parent and controlling party.

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 (2019: £1). See also note 25 post balance events. The Company is taking the exemption under section 400 of the Companies Act 2006 to not prepare consolidated financial statements. The parent Zopa Group Limited prepares consolidated financial statements which are publicly available on Companies House.

21. Share based payments

Employees receive equity option instruments (share options) of the parent as consideration for their services. These equity option instruments are granted by Zopa Group Limited. The Group operates six equity-settled share-based compensation plans, the 2005 Stock Incentive Plan, 2015 Stock Incentive Plan and the Non-Tax Advantaged Share Option Plan, together the Option Plans. Additionally, the Zopa Group Limited Company Share Option Plan (CSOP), the Zopa Group Limited Joint Share Ownership Plan (JSOP) and the Management Incentive Plan (MIP). 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 range of exercise prices and the weighted average lifetime of outstanding share options held by employees of the Company at the end of the year.

	Option Plans (restated)	CSOP (restated)	JSOP (restated)	Total (restated)	Weighted Average Exercise Price
Outstanding options at 1 January 2019	979,068	1,026,772	921,701	2,927,541	3.1941
Granted during 2019	-	75,663	41,974	117,637	5.9611
Exercised during 2019	(239,305)	-	-	(239,305)	0.8980
Lapsed during 2019	(42,529)	(205,002)	(22,401)	(269,932)	4.2479
Balance at 31 December 2019	697,234	897,433	941,274	2,535,941	3.6703
Granted during 2020	19,207	-	3,500	22,707	4.4229
Exercised during 2020	(262,945)	(1,115)	-	(264,060)	0.7664
Modified instruments	72,448	(87,962)	15,514	-	n/a
Employee transfer	(361,184)	(791,227)	(705,873)	(1,858,284)	2.9430
Lapsed during 2020	(56,629)	(17,129)	(76,498)	(150,256)	4.0046
Balance at 31 December 2020	108,131	-	177,917	286,048	4.1956
Range of exercise prices (£)	0.05-6.00	n/a	3.00-6.74	0.05-6.74	n/a
Weighted average remaining contractual life (years)	6.6	n/a	7.3	6.6	n/a
Exercisable options at 31 December 2020	71,193	-	144,461	215,654	4.6598

The table above reflects the details of the share options for the Company alone. However, in the 2019 annual report and financial statements of the Company the disclosed amounts related to the entire Zopa Group, which included

Zopa Limited

Notes to the financial statements (continued)

Zopa Limited. This has been adjusted in the current year in order to comply with the requirements of IFRS 2. The adjustment to the 'Balance as of 31 December 2019' which related to share awards held by other group companies was 384k for Option plans, and 462k and 475k of CSOP and JSOP awards respectively.

For options granted during the year the weighted average fair value of the options at the measurement date was £0.1681.

For share options exercised during the year, the weighted-average share price at the date of exercise was £3.1696 (2019: £8.5900).

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 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 or modified in the year.

	2020	2019
Expected volatility	30-42%	35%
Expected life (in years)	5	5
Weighted average share price	£3.1696	£8.5900
Exercise price	£3.50-4.50	£4.49-6.75
Expected dividends	None	None
Risk free rate	(0.1%) - 0.4%	0.4-0.6%

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

During the year, following the change of control in June, the CSOP scheme closed and eligible awards were replaced. The replacement instruments mirror the vesting schedules and size of the previous awards and are treated as a modification. The fair value of the original award and of the replacement are assessed at the modification date using the same approach as for new grants. Where the modification is beneficial the incremental fair value is recognised over the remaining vesting period. The incremental fair value of modified awards was £12k (2019: £nil)

The share-based payment charge in the year was £238k (2019: £870k).

22. Related parties

At 31 December 2020 £27k of trade payables is due to the ultimate parent company, Zopa Group Limited (2019: £24k) and £3,036k is due to Zopa Bank Limited (2019: £623k). Amounts have been settled in full post year end. Nothing is due from Zopa Holdings Inc, who have been wound down (2019: £1,673k).

A loan of £3,128k is due from a fellow group company, Zopa Bank Limited (2019: £4,848k). The loan is repayable on 31 December 2022, 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 £134k was recognised during the year in relation to this (2019: £132k). The amount is still outstanding.

A loan of £3,116k is due from the ultimate parent company Zopa Group Limited (2019: £701k). The loan is repayable on 18 September 2024, with an option to extend, and bears an arm's length interest equal to the Bank of England

Zopa Limited

Notes to the financial statements (continued)

base rate plus a 2% margin. Interest income of £51k was recognised during the year in relation to this (2019: £1k). The amount is still outstanding.

During the year revenue of £207k was generated from services provided to Zopa Group Limited (2019: £553k) and £6,904k from services provided to Zopa Bank Limited (2019: £6,381k). The Company was charged administrative costs of £15,518k by Zopa Bank Limited (2019: £12,008k) and £86k by Zopa Group Limited (2019: £0k).

The Company recognised an additional payable of £1,618k to Zopa Bank Limited based on loans already disbursed. Zopa Bank Limited purchased the loans and contractual rights from a P2P investor during the year. Yield commitments by the Company on this loan portfolio were reflected in a new agreement with Zopa Bank. The agreement is classified as a derivative and is measured at fair value. It has been recognised in equity as a capital contribution with subsequent fair value movements through profit and loss. Further details on fair values can be found in note 24.

During the year intangible assets, workforce and office equipment were transferred to Zopa Bank Limited for a total consideration of £9,106k. A profit of £2,168k was recognised in relation to the transfer.

The Company was not charged interest for any loans with Zopa Group Limited in 2020 (2019: £26k).

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.

	2020	2019
	£000	£000
Cash and balances with banks	4,779	3,860
Loans and advances to customers	121	294
Amounts due from other group undertakings	6,244	7,221
Other assets	3,777	5,934
Gross credit risk exposure	14,921	17,309
Less: allowance for credit losses	(38)	(96)
Net credit risk exposure	14,883	17,213

Loans and advances to customers

The table below provides analysis of loans and advances to customers.

Zopa Limited

Notes to the financial statements (continued)

	Total £000
31 December 2020	
Gross loans and advances to customers	121
less: allowance for credit losses	(38)
Total loans and advances to customers	83
Amounts expected to be recovered more than 12 months after the reporting date	3

	Total £000
31 December 2019	
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

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 year.

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
ECL allowance 1 January 2020	11	7	78	96
<i><u>Changes reflected in ECL</u></i>				
Transfer from Stage 1 to Stage 2	(2)	8	-	6
Transfer from Stage 2 to Stage 1	3	(6)	-	(3)
New financial asset originations/purchases	6	6	1	13
Changes in PD/ LGD/ EAD	(6)	(2)	(12)	(20)
Discount Unwind	-	-	-	-
Derecognition/ maturity of financial assets	(8)	(3)	(4)	(15)
Net P&L charge during the year	(7)	3	(15)	(19)
<i><u>Other movements with no Profit and Loss impact</u></i>				
Write-offs	-	-	(39)	(39)
Transfer from Stage 2 to Stage 3	-	(7)	7	-
ECL allowance at 31 December 2020	4	3	31	38

Zopa Limited

Notes to the financial statements (continued)

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Expected Credit Loss allowance 1 January 2019	23	50	200	273
<i>Changes reflected in ECL</i>				
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 year	(12)	5	25	18
<i>Other movements with no Profit and Loss impact</i>				
Write-offs	-	-	(195)	(195)
Transfer from Stage 2 to Stage 3	-	(48)	48	-
ECL allowance at 31 December 2019	11	7	78	96

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 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross carrying amount at 1 January 2020	185	21	88	294
New financial asset originations/purchases	60	31	2	93
Repayments/derecognition of financial assets	(201)	(12)	(14)	(227)
Transfer from Stage 1 to Stage 2	(19)	19	-	-
Transfer from Stage 2 to Stage 1	36	(36)	-	-
Transfer from Stage 2 to Stage 3	-	(12)	12	-
Write-offs	-	-	(39)	(39)
Gross carrying amount at 31 December 2020	61	11	49	121

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £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

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

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Notes to the financial statements (continued)

Internal rating scales

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

31 December 2020	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Lowest risk	6	-	-	6
Medium risk	19	-	4	23
Highest risk	36	11	45	92
Total	61	11	49	121

31 December 2019	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Lowest risk	12	-	-	12
Medium risk	66	12	16	94
Highest risk	107	9	72	188
Total	185	21	88	294

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 2020, total forbore loans were £18k (31 December 2019: £40k), of which £18k were impaired (31 December 2019 : £37k). At 31 December 2020, the allowance for loan losses held in respect of forbore loans was £12k (2019: £27k)

(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	2020 £000	2019 £000
Unencumbered cash and bank balances	4,779	3,860
Total liquid assets	4,779	3,860

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

Zopa Limited

Notes to the financial statements (continued)

Assets	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2020	£000	£000	£000	£000	£000	£000
Cash and balances with banks	4,779	-	-	-	-	4,779
Loans and advances to customers	3	7	5	68	-	83
Amounts due from other group undertakings	-	38	-	6,206	-	6,244
Other assets	1,529	190	1,062	6,925	-	9,706
Total	6,311	235	1,067	13,199	-	20,812

Liabilities	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2020	£000	£000	£000	£000	£000	£000
Amounts due to banks	151	-	-	-	-	151
Amounts due to other group undertakings	1,445	-	1,618	-	-	3,063
Lease liabilities	-	-	-	5,498	-	5,498
Other liabilities	91	947	218	1,572	-	2,828
Total	1,687	947	1,836	7,070	-	11,540

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

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.

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Notes to the financial statements (continued)

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities 31 December 2020	£000	£000	£000	£000	£000	£000
Amounts due to banks	151	-	-	-	-	151
Amounts due to other group undertakings	1,445	-	1,618	-	-	3,063
Lease liabilities	-	550	1,649	3,542	-	5,741
Other liabilities	91	947	218	1,572	-	2,828
Total	1,687	1,497	3,485	5,114	-	11,783

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities 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	-	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

(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 liabilities include a derivative with yield payments linked to the performance of an existing loan portfolio. 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:

	2020 £000	2019 £000
2% shift up of the yield curve	(11)	(6)
2% shift down of the yield curve	11	6

(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.

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Notes to the financial statements (continued)

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

24. Financial instruments and fair values

All financial instruments are measured at amortised cost except for the derivative with Zopa Bank Limited which is classified as FVPL with a level 3 fair value. There were no reclassifications of financial assets or liabilities during the year ended 31 December 2020.

The Company uses a fair value hierarchy which reflects the significance of the inputs used in making the measurements. There are three levels to the hierarchy as follows:

Level 1: quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;

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

Level 3: inputs for the asset or liabilities that are not based on observable market data (unobservable inputs). The derivative included in amounts due to other Group undertakings is level 3. A discounted cash flow model is used to estimate its value. Inputs to this model include the amortisation of the notional loan amounts, their expected life and the yield support rate, these are unobservable inputs that require management judgement. An expected life of 1.5 years and a yield support rate of 2.00% have been used for the value as at 31 December 2020. Sensitivity analysis has been performed on the expected lifetime and yield support rates with the results below:

Scenario 1 – Using an expected life of 1.25 years and a yield support rate of 1.50% the fair value of the derivative is £1.01m

Scenario 2 - Using an expected life of 1.75 years and a yield support rate of 2.00% the fair value of the derivative is £1.89m

The derivative included in other liabilities is also level 3 with its value estimated using a discounted cash flow model.

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:

	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
31 December	£000	£000	£000	£000
Cash and balances with banks	4,779	4,779	3,860	3,860
Loans and advances to customers	83	45	198	173
Amounts due from other Group undertakings	6,244	6,244	7,221	7,255
Total financial assets (at amortised cost)	11,106	11,068	11,279	11,288
Amounts due to banks	151	151	21	21
Amounts due to other Group undertakings	1,445	1,445	647	623
Other liabilities	8,178	8,178	3,084	3,084
Total financial liabilities (at amortised cost)	9,774	9,774	3,752	3,728

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Notes to the financial statements (continued)

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.

25. Post balance sheet events

In April 2021, P2PS Cars Limited, a subsidiary of the Company was dissolved.