ZOPA

Zopa Group Limited

Annual Report and Consolidated Financial Statements
for the year ended 31 December 2019

Registered number: 10624955

Directors and professional advisers

Directors
Giles Andrews
Nicholas Aspinall
Christine Farnish
Richard Goulding
Peter Herbert
Jaidev Janardana
Scott Christopher Jones
Gordon McCallum
Jeppe Zink

Secretary
Victoria Matthews

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Chartered Accountants and Statutory Auditors
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Strategic report

Principal activities

The principal activity of Zopa Group Limited ("the Company"), was that of a holding company for its subsidiaries (together "the Group"). The Group's principal activities were:

i. The provision of an online peer-to-peer (P2P) lending platform by Zopa Limited which allows individuals in the United Kingdom to access unsecured loans, facilitated by funds provided by both individuals and institutions.

ii. Creation of a next generation bank (Zopa Bank Limited), in order to expand the Group's commitment to providing customers with simple and fair financial products into new banking products and offer customers more choice.

Business Review

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

Zopa Limited, the Group's peer-to-peer subsidiary, retained its position as Europe's largest consumer lending peer-to-peer platform. (Source: Brismo). During 2019 Zopa Limited also invested in its front-end architecture as part of its preparation for the regulator's new P2P rules.

In December 2019, Zopa Group Limited announced that it had entered into an investment agreement with an existing investor to raise £140 million of new equity funding, in order to meet the regulatory capital requirements to fully mobilise Zopa Bank. This completed Zopa's Variation of Permission application to the PRA and the FCA to allow it to exit mobilisation and launch the bank, which is expected to happen in 2020 subject to a change of control. Both the Variation of Permission application and the change of control were under review with the PRA and the FCA as of 31st December 2019.

Further detail on subsequent developments is included in the Directors' Report and notes 20 and 27 to the consolidated financial statements.

In 2019, the Group made further investments in its systems and technology to maintain its competitive advantage. This included:

- Evolving and enhancing its proprietary IT platform to enable future growth and to ensure an even more secure service;
- Continued investment in back-office infrastructure;
- Development of its product technology architecture to support the launch of its credit cards, savings and development of its mobile application product; and
- Strengthened its technology integrations with its digital aggregators and comparison sites.

During 2019, the Group continued to grow its auto lending – through both its innovative direct to consumer hire purchase proposition, and in the intermediated distribution channel. Testing for the new credit card product, which is a key launch product for the Bank, was also started within a small 'friends and family' group in December 2019.

The results of the Group for the year show a loss after tax of £15.4 million (2018: loss of £17.9 million). The loss reflects the focus and investment by the Group to build and launch its new financial products and services for the next generation bank.

Strategic report (continued)

In addition to technology, the Group also continued to grow its product development, customer service, and risk management functions. The Group's average headcount increased to 442 in 2019 compared with 369 in 2018.

Awards

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

This continued commitment has been repeatedly recognised externally, as Zopa Limited won a series of awards in 2019, including:

- Moneyfacts Consumer award for Personal Loans Provider of the Year (highly commended for Trusted Loans Provider & Best Customer Service)
- Fairer Finance's Gold Ribbon for customer experience
- Moneywise Customer Service award for Most Trusted P2P Platform and named a Trusted Loans provider for the tenth year in a row
- British Bank Award for Best Personal Loan Provider for the third year in a row
- Listed in Sifted's Top Startups in Europe to follow in 2020
- Ranked 3rd in BusinessCloud's London Tech 50, a list of the capital's most exciting technology companies
- Listed in BusinessCloud's 101 UK FinTech Disrupters
- Ranked 16th on Beauhurst's top 50 Fintech startups and scaleups in the UK
- Being named as one of London's top 10 Fintech companies to work for (Silicon Canal)

Key Performance Indicators ("KPIs")

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

£000	Year ended 31 December 2019	Year ended 31 December 2018	Comments
Net Interest Income	496	373	The increase from the prior period is due to growth in the number and value of auto loans held within Zopa Bank, as we continued to test the appeal of the new products.
Fee and Commission Income	46,252	38,221	Fee and commission income is the income received from acquiring and servicing loans. The increase is driven by increased revenues from the peer-to-peer platform driven by product mix and pricing.
Fee and Commission Expense	(13,284)	(14,574)	Fee and commission expense relates to fees paid to third parties for originating loans on the P2P platform. It also includes origination costs not directly attributable to the issue of new financial instruments by Zopa Bank.
Total Operating Income	33,464	24,020	Total operating income is the net income received from financial instruments and related fees and commissions. Improvements in peer-to-peer margins as noted above resulted in significantly increased operating income compared to 2018.

£000	Year ended 31 December 2019	Year ended 31 December 2018	Comments
Impairment losses on loans and advances to customers	(180)	(70)	Impairment losses reflect the charge recognised under IFRS9 through profit and loss in relation to expected credit losses on loans to customers. The increase is largely due to growth in the number and value of auto loans held on balance sheet
Administrative Expenses	(51,411)	(42,245)	Administrative expenses include costs of running the business such as staff costs, IT costs, marketing expenses, premises, depreciation and amortisation. The increase from prior year is due to increased investment in the Bank
Loss Before Tax	(18,136)	(18,295)	Loss before tax is the loss for the year before including any income/expenses in relation to taxes. Increased fee and commission income earned from the peer to peer platform were offset by increased costs arising from the build of Zopa Bank.
Loans and Advances to Customers	16,510	7,637	The total value of loans and advances provided to customers at the balance sheet date. The increase from prior year is due to growth in the number and value of auto loans held on balance sheet
Total Equity	36,535	48,903	Total Equity is comprised of share capital, reserves and accumulated losses. The reduction in equity is driven primarily by the loss for the year, offset by a modest injection of new share capital

Financial Performance

In 2019 the Group continued to generate significant revenues from its peer-to-peer platform, with growth in revenues from increased loan disbursals and margin improvements. Revenue (consisting of net interest income and fee and commission income) for 2019 was £46.7m, an increase of £8.1m from 2018. The Group continued to grow its balance sheet through the bank mainly by developing its core technology and its auto loan portfolio. In 2019, the Group increased its loans and advances to customers from £7.6m to £16.5m. As the Group continued to develop its operating model and work towards receiving its full banking licence, higher costs were incurred, relating mostly to higher employee numbers and IT costs. Overall the net loss for the year of £15.4m (2018: net loss £17.8m) reflected continued focus on building out capabilities for the launch of the bank and new financial products.

Plans for the future

With an agreement finalised to capitalise the bank, the Group's key priorities for 2020 will be to lift restrictions on its banking licence and launch the bank together with its new financial products: a savings product offering competitive rates and a simple customer journey, a credit card enabling borrowers to control their finances, and the Borrowing Power tool helping customers directly link positive financial behaviour to lending outcomes. The Group will continue to invest in capabilities to support and enhance its core product of personal loans and begin funding these loans at scale from its own balance sheet as well as through originating for the peer to peer retail and institutional investors. In addition, the Group will advance its activities in hire purchase auto financing, building on the start it has made to this new business area since its launch at the end of 2017.

Strategic report (continued)

The Group's investment in technology and infrastructure will continue through 2020, focusing on controlling our own technology stack and higher automation to ensure an increasingly seamless experience for customers. In particular the Group's new credit card product will be launched on an internally developed software platform which is a significant differentiator compared to the legacy infrastructure used by the vast majority of credit card lenders. Over time this will significantly enhance the product features that can be delivered and further enable great customer experience. The Group aims to offer exceptional levels of customer support thereby maintaining its leading net promoter score, and in parallel with further automation and technical development it will invest in its customer-facing teams to support best in class customer experience as the business grows.

Section 172 Disclosure

Zopa Group Limited is a UK holding company, whose subsidiaries include Zopa Bank Limited and Zopa Limited. The Company complies with Section 172 of the Companies Act by ensuring that the overall Group strategy, purpose, values and culture are applied and adopted as appropriate by each subsidiary. The Company manages capital for the Group, including the raising of new equity capital.

Board Role

The Board is responsible for ensuring that the Group delivers against its financial and business objectives as set out in its business plans and budget, having regard to interests of all stakeholders. The Board is also responsible for the oversight and control of the management of risk in the Group and for ensuring that risk appetite is set and that culture, values and standards are maintained. The Board ensures that the Company and the Board itself comply with its Articles of Association and through its own activities and its oversight of the subsidiaries it ensures that all relevant legal, regulatory and governance requirements are met.

The Board directs the Group by setting its overall strategy, whilst ensuring that the Group's culture, values, and behaviours and meet or exceed the standards required of a Group which includes two regulated subsidiaries.

The Board is supported by the Executive Management team, employed within Zopa Bank Limited or Zopa Limited, who provide reporting and recommendations and who are responsible for executing the Group's Strategy and delivering financial and business performance.

Board Training and Induction

New Board members are offered comprehensive induction training and meet with relevant members of staff to support the transition into their new role. The company secretarial team ensures that the Board are updated on developments in corporate governance or Directors' duties and responsibilities.

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. Zopa Group's governance framework has been developed to ensure that conflicts of interest between the different entities are minimised and managed appropriately.

Employee Engagement and Culture

The Board is responsible for setting the Group's values and standards and ensuring that the Group is managed with integrity. The Board ensures that the Group's culture and values have been inculcated into the business through its oversight of the subsidiaries and through its own monitoring. This includes the monitoring of whistleblowing via the Zopa Bank Board Audit Committee; and the review of dedicated conduct risk MI in the Zopa Bank Limited Board and Bank Board Committees and in the Zopa Limited Board.

Strategic report (continued)

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

The Group carries out an employee opinion survey twice a year. The employee opinion survey results provide the opportunity for the Board and Executive Management Team to gain a perspective of employees' view of strategy, leadership, culture and values. Management and the Board assess the results of the surveys and take appropriate actions.

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

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

Shareholder Engagement

The Group Board owns the relationship with the Zopa Group Limited shareholders. Some shareholders have direct participation to the Group Board meetings through their representatives as Directors of the Board. The remaining shareholders are informed about the developments of the Group on a frequent basis.

Our Regulators

The Executive Management Team is in regular contact with the regulators, the PRA and FCA. This communication has been on a very regular basis during 2019 due to the bank licence application and as peer to peer regulations have evolved.

The Group adheres to regulatory guidance to ensure that the business operates to the highest standards, for the benefit of our customers and other stakeholders.

Customers

The Group aims to be the best place for money by offering innovative products that are clear and easy to understand, and by supporting those products with high quality customer service. During 2019, the Group ensured that the key enablers were in place for the launch of the bank to enable expansion of the existing business model that aligns with the best interests of our customers.

Suppliers and Outsourcing

The Group has a well-established procurement process that ensures we select appropriate suppliers who will help us maintain our high standards of service. We also have a well-established supplier management process so that suppliers are managed to minimise any risk they could pose to the Company and to ensure good customer outcomes.

Key outsourcing decisions are made by the subsidiary Boards including the ongoing monitoring of key suppliers, whereas the Group Board makes selection decisions for key suppliers providing services to the Zopa Group Limited, such as investment advisers.

The annual reports of both subsidiaries set out how the subsidiary Boards and management teams have worked to ensure that feedback from a broad range of stakeholders is considered in decision making, whilst ensuring that the Group business model is current and sustainable.

Business environment

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

The Group closely monitors UK consumer credit conditions. As a result of default conditions appearing to normalise following the historic lows seen over the last decade, the Group tightened the acceptance criteria for loans originated on its peer-to-peer platform in 2019. This reflects the Group's commitment to prudent risk management. Subsequent developments since the year end resulting from the spread of Covid-19 are covered in the Directors' report.

Principal risks and uncertainties

The Risk Management Framework (RMF) operated by the two operating entities within Zopa group: Zopa Bank Limited and Zopa Limited set out how they and thus the Group 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 risk appetite statements for Zopa bank and Zopa P2P defines and quantify the risks that the two entities and thus the group is exposed to and sets out what level of each risk they are willing to take given its business strategy.
- **Risk Management Model:** Zopa Group's operating entities operate a risk management model comprising mechanisms and processes to identify, measure, monitor, report and mitigate risks.
- **Three Lines of Defence:** Zopa Bank and Zopa Limited operate 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 Zopa. It delegates the execution of this responsibility to the relevant committees and individuals.
- **Culture and People:** Zopa Group's culture helps to ensure that a healthy and efficient risk environment is implemented from the bottom up. The Group performs staff surveys regularly, assesses staff turnover and hiring trends and oversees the annual employee performance management process.
- **Policies and Procedures:** Policies and procedures are in place to ensure Zopa Group's front-line activities are conducted within the bounds set by the Risk Appetite statement.

Strategic report (continued)

Principal Risks

Zopa categorises the risks it faces into five major risk types – Credit, Capital, Liquidity, Operational and Strategic:

Risk Type	Mitigation
Credit risk The risk that Zopa's borrowers or other counterparties default on their loans or obligations.	• Operate in selected sectors and products, where we have expertise. • Consistently apply the approved credit policy, and price credit facilities for risk. • Obtain physical or financial collateral where appropriate. • Undertake robust in-life management of the credit portfolio, including by careful management of customers in collections. • Perform regular monitoring and reporting of credit performance against risk appetite, with swift escalation if internal triggers or limits are breached.
Capital risk The risk that Zopa has insufficient capital to support its business strategy.	• Perform a comprehensive periodic Internal Capital Adequacy Assessment Process ("ICAAP") assessment of all material capital risks (Zopa Bank only). • Maintain a capital buffer above minimum regulatory requirements, and for Zopa Limited above expected wind down costs. • Perform regular monitoring and reporting of capital adequacy against risk appetite, with swift escalation if internal triggers or limits are breached. • Plan to meet capital requirements on a forward-looking basis, formally assessing confirmed and potential changes in regulatory rules.
Liquidity risk The risk that Zopa is unable to meet its obligations as they fall due.	• Perform a comprehensive periodic Internal Liquidity Adequacy Assessment Process ("ILAAP") assessment of all material liquidity risks (Zopa Bank only). • Comply with all liquidity related regulatory requirements and maintain a liquidity buffer above minimum regulatory requirements. • Conduct active day-to-day Treasury management of liquidity resources, according to agreed internal liquidity policies (Zopa Bank only). • Perform regular monitoring and reporting of liquidity adequacy against risk appetite, with swift escalation if internal triggers or limits are breached. • Plan to meet liquidity requirements on a forward-looking basis, formally assessing confirmed and potential changes in regulatory rules.
Operational risk The risk that Zopa suffers losses stemming from inadequate or failed internal processes, people and systems, including fraud or risks from the impact of external events including legal risks. Operational Risk includes compliance risk (the risk that Zopa fails to meet its regulatory obligations) and conduct risk (the risk that Zopa's actions result in poor customer outcomes).	• Identify and allocate owners to all material business processes, and conduct risk assessments on these. • Set, and implement controls to monitor ensure compliance with, policies designed to mitigate operational risks. • Perform regular monitoring of controls performance and risk events against risk appetite and escalate swiftly if internal triggers or limits are breached. • Perform periodic deep-dive testing of operational risk management in individual process areas. • Conduct regular business continuity, disaster recovery, and cyber security vulnerability testing. • Conduct regular compliance testing and monitoring of customer outcomes.

Strategic report (continued)

Risk Type	Mitigation
Strategic The risk of opportunity loss from the failure to optimise the earnings potential of Zopa's franchise.	• Maintain a Group Board, Subsidiary Boards, Executive and Management Committees composed of skilled and experienced individuals. • Conduct periodic strategic planning exercises and hold regular Board, Executive and Management Committee strategy discussions.

Principal Uncertainties

Zopa has identified the following key uncertainties about events that could adversely impact the Group:

Theme	Risk	Mitigation
Significant UK downturn	A significant UK macroeconomic downturn could result in a worse than expected credit performance, including any impact from Brexit.	• 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
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	• Robust business continuity, disaster recovery and back-up arrangements • Ongoing information security threat monitoring
Failure of a critical outsource provider or supplier	A failure or defect in an outsourced provider's performance of critical functions for Zopa could cause service outages or customer detriment	• Initial and ongoing due diligence on all critical outsourcing providers including on business continuity, information security, data protection and customer treatment • Service-level agreements and contracts in place with providers to help ensure services delivered to the right standard
Significant decline of P2P reputation (Zopa Limited only)	A significant number of P2P competitors failing could result in loss of confidence in the P2P industry with customers leaving the platform, leading to liquidity constraints and a drop in valuation	• Ongoing proactive and reactive engagement with regulators and media
Impact of regulatory change in the peer to peer sector (Zopa Limited only)	Changes to regulation may impact the number and volume of new retail funding on the platform	• Regular monitoring of customer confidence and funding levels • Ability to flex institutional funding

COVID 19 has impacted the Group across the multiple risk types described above. The Group expects to observe higher than forecasted (as at 31 December 2019) credit defaults on lending assets on its balance sheet; however, the existing portfolio amounts to only £14m of secured car finance loans, so the financial impact is expected to be relatively limited. With regards to the P2P platform, early indicators suggest that there could be an increase in borrower defaults resulting in investors not achieving their targeted returns. The business has seen an increase in Investors wishing to withdraw their funding via secondary loan sales although the platform has been able to process these requests, albeit with some delay. Overall, reduced funds have been available for the business to continue lending via the P2P platform. Combined with a tightening of credit and the expected reduction in demand for loans that occurs in times like this

Strategic report (continued)

ongoing lending volumes have been lowered but the platform continues to serve both its lending and borrowing customers in a way that the broader P2P industry has not.

COVID 19 has required the Group to enable home working for all employees. This has been managed successfully with no adverse impacts to date on the Group's ability to conduct key business processes and serve customers, or to manage information security risks. There is uncertainty over the extent of the ongoing impacts of COVID 19 on the business, which could manifest themselves in the form of a prolonged credit downturn, and/or staff shortages and/or increased risk of failures of third party service providers. In addition, COVID19 may present risks to raising capital in future. These all represent risks to our long-term strategic plan.

The Directors believe that the Group is well positioned to obtain its full banking licence and launch its new financial products, thus continuing to provide great value and service to its customers.

On behalf of the Board,

DocuSigned by:
Jaidev Janardana
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Jaidev Janardana
Director
7 August 2020

Directors' report for the year ended 31 December 2019

The Directors present their annual report and audited financial statements of the consolidated Group and the Company for the year ended 31 December 2019. The financial performance and future plans for the Group 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:

Giles Andrews	
Nicholas Aspinall	(appointed 11 June 2020)
Charles Birnbaum	(resigned 2 June 2020)
Christine Farnish	
Richard Goulding	
Peter Herbert	
Jaidev Janardana	
Scott Christopher Jones	(appointed 11 June 2020)
Tim Levene	(resigned 11 June 2020)
Gordon McCallum (Chair)	(appointed 14 February 2019)
Nigel Morris	(resigned 27 July 2020)
Kapil Wadhawan	(resigned 6 February 2020)
Jeppe Zink	(appointed 11 June 2020)

Giles Andrews held the position of Chair during the year up to 14 February 2019 when he was replaced by Gordon McCallum.

Going concern

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

The Company received a capital injection of £140m from IAG Silverstripe on 11th June 2020 with corresponding issuance of ordinary shares. This capital injection enabled the capitalisation of Zopa Bank Limited with the Company investing £135m into Zopa Bank additional ordinary shares. This was the final step to enable the lifting of restrictions on the banking licence enabling Zopa Bank Limited to commence raising of customer deposits and lending at greater scale.

For the going concern assessment, the base case forecast assumes that the Company will receive a further capital injection in mid 2021 and inject equivalent funds into Zopa Bank to enable continued asset growth post that point and to cover trading losses including the impact of IFRS9 impairment provisions on a growing loan portfolio. Should the Company choose to raise capital at a later point in 2021 or the capital raise be delayed for other reasons, the Group would execute a series of actions to manage the Bank and Group regulatory capital position by reducing new lending volumes. These actions would ensure that the Group and Bank continued to meet relevant regulatory capital and liquidity requirements as set out by the PRA without a further injection of capital in 2021.

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

Employee involvement

Employee engagement is one of the Group'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 tech.

Zopa 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 group and its mission as it grows. To further align the interests of the employee and the Group, Zopa's compensation structure is tied to the Group's performance, ensuring that the progress of the Group is shared with employees. Many staff members also partake in Group share ownership plans, with equity interests vesting over a period of time.

Donations

The Group made no political donations in 2019 (2018: nil).

Disabled employees

At Zopa we believe in creating an inclusive working environment. Our job adverts clearly state that we do not discriminate on the basis of disability (or on any other grounds). Additionally, applicants are asked prior to the interview stage if we need to make any special adjustments for them to take part in the process. Zopa 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 risk is detailed in note 24 to the consolidated 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 group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- State whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and IFRSs as adopted by the European Union, and have been followed for the Company financial statements, 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 group and company will continue in business.

The directors are also responsible for safeguarding the assets of the Group and 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 Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

Directors' confirmations

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

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

Directors' indemnities

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

Independent auditors

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

The financial statements on pages 19 to 68 were approved by the Board of Directors on 21 July 2020 and signed on its behalf by:

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Jaidev Janardana
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Jaidev Janardana
Director
7 August 2020

Independent auditors' report to the members of Zopa Group Limited

Report on the audit of the financial statements

Opinion

In our opinion, Zopa Group Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2019 and of the group's loss and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions 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 Consolidated Financial Statements for the year ended 31 December 2019 (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 December 2019; the consolidated income statement, the consolidated and company statements of cash flows, and the consolidated and company statements 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 group and company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

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

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial

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

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

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

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

Strategic Report and Directors' Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit
Responsibilities of the directors for the financial statements
As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements set out on page 14, 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 group's and 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 group or the company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

Nick Morrison

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

Consolidated Income Statement for the year ended 31 December 2019

	Note	31 December 2019 £000	(Represented[1]) 31 December 2018 £000
Interest Income	4	775	373
Interest Expense	5	(279)	-
Net Interest Income		**496**	**373**
Fee and Commission Income	6	46,252	38,221
Fee and Commission Expense		(13,284)	(14,574)
Total Operating Income		**33,464**	**24,020**
Administrative Expenses	7	(51,411)	(42,245)
Operating loss before impairment losses		**(17,947)**	**(18,225)**
Impairment losses on loans and advances to customers		(180)	(70)
Loss on disposal of PPE		(9)	-
Loss before tax		**(18,136)**	**(18,295)**
Taxation	11	2,738	434
Loss after tax - attributable to equity holders		**(15,398)**	**(17,861)**
Other comprehensive (expense)/income that will not be reclassified subsequently to profit or loss		(1)	34
Total comprehensive income		**(15,399)**	**(17,827)**

The notes on pages 23-56 form part of these financial statements.

The operating losses of the Group are derived from continuing operations in the current and prior periods.

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

Consolidated Statement of Financial Position as at 31 December 2019

	Note	31 December 2019 £000	(Represented[1]) 31 December 2018 £000	(Represented[1]) 1 January 2018 £000
Assets				
Cash and balances with other banks		7,221	12,734	9,032
Debt securities	12	243	18,725	-
Loans and advances to customers	13	16,510	7,637	1,318
Prepayments and accrued income		3,564	3,513	2,492
Current tax asset	11	3,626	1,109	1,111
Other assets		2,373	2,230	2,372
Property, plant and equipment	14	2,458	3,437	3,006
Right of use assets	15	7,741	-	-
Intangible assets	16	11,310	8,006	4,381
Total Assets		**55,046**	**57,391**	**23,712**
Liabilities				
Amounts due to banks		21	99	-
Accruals and deferred income		5,892	5,936	3,539
Provisions	17	2,174	322	274
Other liabilities	18	2,124	2,131	3,694
Lease liabilities	15	8,300	-	-
Total Liabilities		**18,511**	**8,488**	**7,507**
Equity				
Share capital	19	389	380	302
Share premium		57,951	56,342	7,853
Other reserves		61,223	59,656	57,664
Retained losses		(83,028)	(67,475)	(49,614)
Total Equity		**36,535**	**48,903**	**16,205**
Total Liabilities and Equity		**55,046**	**57,391**	**23,712**

The notes on pages 23-56 form part of these financial statements.

The financial statements of Zopa Group Limited (Registered Number 10624955) were approved by the Board of Directors on 21 July 2020 and were signed on its behalf by:

DocuSigned by:
Jaidev Janardana
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Jaidev Janardana
Director
7 August 2020

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

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

	Share Capital £000	Share Premium £000	Other Reserves £000	Retained Losses £000	**Shareholders' Equity £000**
Balance at 1 January 2018	**302**	**7,853**	**57,664**	**(49,614)**	**16,205**
Comprehensive expense					
Exchange rate differences	-	-	34	-	**34**
Loss for the year	-	-	-	(17,861)	**(17,861)**
Total comprehensive expense	**-**	**-**	**34**	**(17,861)**	**(17,827)**
Transactions with owners					
Issue of share capital	78	48,489	-	-	**48,567**
Share based payment charge	-	-	1,958	-	**1,958**
Total transactions with owners	**78**	**48,489**	**1,958**	**-**	**50,525**
Balance at 31 December 2018	**380**	**56,342**	**59,656**	**(67,475)**	**48,903**
Change on initial application of IFRS 16	-	-	-	(155)	**(155)**
Balance at 1 January 2019	**380**	**56,342**	**59,656**	**(67,630)**	**48,748**
Comprehensive expense					
Exchange rate differences	-	-	(1)	-	**(1)**
Loss for the year	-	-	-	(15,398)	**(15,398)**
Total comprehensive expense	**-**	**-**	**(1)**	**(15,398)**	**(15,399)**
Transactions with owners					
Issue of share capital (net of transaction costs)	9	1,609	-	-	**1,618**
Share based payment charge	-	-	1,568	-	**1,568**
Total transactions with owners	**9**	**1,609**	**1,568**	**-**	**3,186**
Balance at 31 December 2019	**389**	**57,951**	**61,223**	**(83,028)**	**36,535**

The notes on pages 23-56 form part of these financial statements.

Other Reserves consist of a Merger Reserve created in 2017 by a corporate reorganisation, a Share Based Payments Reserve and a Currency Translation Reserve. Transactions costs accounted for during the year as a deduction of share premium totalled £2,504k (2018: £1,225k). Further information in relation to share capital and share based payments can be found in note 19 and note 21 respectively.

Consolidated Statement of cash flows for the year ended 31 December 2019

	Note	31 December 2019 £000	(Represented[1]) 31 December 2018 £000
Cash flows from operating activities			
Loss before taxation		(18,136)	(18,295)
Adjustments for:			
Change in operating assets		(9,067)	(7,270)
Change in operating liabilities		1,723	981
Change in restricted balances		6	(90)
Payment of lease liabilities	15	(2,231)	-
Non-cash and other items		7,327	5,321
Taxation received		220	438
Net cash used in operating activities		**(20,158)**	**(18,915)**
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(531)	(1,836)
Purchase of intangible assets	16	(4,996)	(5,528)
Interest received on debt securities	12	78	49
Net cash used in investing activities		**(5,449)**	**(7,315)**
Cash flows from financing activities			
Issue of new shares		1,618	48,567
Net cash provided by financing activities		**1,618**	**48,567**
Net (decrease) / increase in cash and cash equivalent		**(23,989)**	**22,337**
Cash and cash equivalent at the start of the year		31,369	9,032
Movement during the year		(23,989)	22,337
Cash and cash equivalent at the end of the year		**7,380**	**31,369**
Cash and cash equivalents consists of:			
Cash and balances with other banks		7,221	12,734
Less restricted balances		(84)	(90)
Debt securities		243	18,725
Cash and cash equivalent at the end of the year		**7,380**	**31,369**

The notes on pages 23-56 form part of these financial statements.

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

Notes to the consolidated 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 1. Details of the group structure can be found in note 7 to the Company financial statements.

These financial statements have been prepared in accordance with IFRS as adopted by the EU and interpretations issued by the IFRS Interpretations Committee and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention or at fair value for financial instruments measured at fair value through other comprehensive income. The principal accounting policies, which have been consistently applied, are set out below.

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

As this constitutes a change in accounting policy there is a retrospective presentation of the statement of financial position, income statement and cash flow statement as if the new policy was applied in the comparative period. The statement of financial position presents figures for three periods: as at the 31 December 2019 (current period), as at 31 December 2018 (comparative period) and as at 1 January 2018 (the beginning of the comparative period). Note 26 shows a reconciliation of financial lines items in the statement of financial position and the income statement as at 31 December 2018 between the new format and the old format.

(b) Functional and presentation currency

The financial statements are presented in Pounds Sterling, which is the functional currency of the Group. 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 Group 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 Group's capital and liquidity plans, including alternative scenarios, have been reviewed by the Directors. When preparing the forecasts, the Group has reflected the economic repercussions of the coronavirus, including the risk of worse than expected credit performance and lower demand for borrowing, thus contributing to lower growth.

Notes to the consolidated financial statements (continued)

On 11th June 2020, following completion of the investment by IAG Silverstripe, the Group received a capital injection of £140m. This has allowed the Group to invest £138m into Zopa Bank Limited, thus completing the final step to lifting the restrictions on the banking licence and enabling the Group to commence raising of customer deposits and lending at greater scale.

The base case forecast assumes that the Group will raise further capital in mid 2021 and inject this into Zopa Bank Limited to enable continued asset growth post that point and to cover trading losses including the impact of IFRS9 impairment provisions on a growing loan portfolio. Should the Group choose to raise capital at a later point in 2021 or the capital raise be delayed for other reasons, the Group would execute a series of actions to manage its regulatory capital position by reducing new lending volumes. These actions would ensure that the Group continued to meet its regulatory capital and liquidity requirements as set out by the PRA without a further injection of capital in 2021.

(d) Presentation of risk and capital disclosures

Principal risks and uncertainties are disclosed in the strategic report (pages 7-10), whilst IFRS 7 disclosures for financial risks, including capital risk, are disclosed in Note 24.

(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 year in which the estimates are revised and in any future years 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 Group

IFRS 16 Leases

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

From initial adoption on 1 January 2019, the Group is required to recognise a lease liability, and a corresponding right of use asset, in respect of leases of property. These amounts are measured by discounting the future lease payments over the lease term, or earlier if management expect to exit the lease early. The adoption of IFRS 16 resulted in the recognition of a lease liability of £9,573k (31 December 2019: £8,300k), a related right of use asset of £9,717k (31 December 2019: £7,741) and a reduction in other liabilities of £33k. This has resulted in a reduction of £155k in equity. Subsequent to the initial adoption, the effect of IFRS 16 on the income statement recognition profile of leases has not been material.

Other amendments effective on 1 January 2019

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

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

Notes to the consolidated financial statements (continued)

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

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

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

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

2. Significant accounting policies

(a) Interest income and expense

Interest income and expense presented in the income statement includes:

- hire purchase (HP) auto loan contracts to customers. Lease income is recognised within interest income in the income statement over the term of the lease using the net investment method (before tax) which reflects a constant periodic rate of return.
- interest on financial assets measured at amortised cost calculated 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.

(b) Fee and commission income

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

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

Fee and commission income is mainly comprised of commission charged to borrowers and lenders for the use of the on-line lending and borrowing exchange. Income from servicing fees is recognised over the term of the loan. The borrower fee is recognised when the borrower accepts the loan.

(c) Fee and commission expense

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

(d) Financial instruments

Recognition and derecognition

I. Recognition

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

II. Derecognition

Financial assets are derecognised when and only when:

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

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

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

Financial assets

III. Classification

There are three principal classification categories for financial assets:

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

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

The 'business model assessment' determines whether the Group's objective is to generate cash flows from collecting contractual cash flows, or by both collecting contractual cash flows and selling financial assets. The assessment is performed at a portfolio level as this best reflects the way the 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.

Notes to the consolidated financial statements (continued)

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

Based on the two assessments and the financial assets held by the Group, almost all are classified as measured at amortised cost. The only exception relates to an insignificant portfolio of loans and advances to customers intended to be sold to third parties. This portfolio is classified as held to collect and sell and is measured at FVOCI.

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

IV. Measurement

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

Financial assets measured at fair value through other comprehensive income (FVOCI) are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, they are measured at fair value based on valuation techniques including discounted cash flow analysis, with reference to relevant market rates and other commonly used valuation techniques. Interest income is recognised in the income statement using the EIR method. Impairment provisions are recognised in the income statement. Other fair value movements are recognised in other comprehensive income and presented in the FVOCI reserve in equity. On disposal, the gain or loss accumulated in equity is reclassified to the income statement.

The Group does not have any financial assets measured at fair value through profit or loss.

<u>Financial liabilities</u>

V. Financial liabilities at amortised cost

Financial liabilities are contractual obligations to deliver cash or another financial asset. Financial liabilities are recognized initially at fair value, net of directly attributable transaction costs for financial liabilities other than derivatives. Subsequently they are measured at amortised cost. Any difference between proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the period of the borrowings using the EIR method.

<u>Impairment – financial assets</u>

This policy applies to:

- financial assets measured at amortised cost;
- loan commitments; and
- finance lease receivables where a group company is the lessor.

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.

Notes to the consolidated financial statements (continued)

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 Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality. A financial instrument that is not credit impaired on initial recognition is classified as in Stage 1 and has its credit risk continually monitored by the Group. 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 Group in addressing the requirements of the standard are discussed below:

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

The Group 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 Group are deemed to have suffered a SICR. The revised PD ratio is the cumulative adjusted PD over the cumulative expected PD at origination. It reflects the probabilities of default for the remaining life of a loan. The cumulative adjusted PD is the weighted average PD across different economic scenarios.

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

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

VII. Definition of default and credit impaired assets - Movement from Stage 2 to Stage 3

The Group 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 60 days past due, in the case of Auto loans, or more than 90 days past due for Unsecured Personal Loans.

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

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

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

(e) Leases

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

As a lessor

The accounting treatment for leases under IFRS 16, where the Group acts as a lessor remained unchanged from IAS 17. The Group provides finance for hire purchase auto leases to customers. When assets are leased to customers under finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised within interest income in the income statement over the term of the lease using the net investment method (before tax) which reflects a constant periodic rate of return ignoring tax cash flows.

As a lessee

The Group leases various property for office space and data centres. Contracts may contain both lease and non-lease components.

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

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment 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 Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. In the absence of any borrowing history, the Group determined its incremental borrowing rate to be 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

Notes to the consolidated financial statements (continued)

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

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.

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

Banking Licence
This consists of both employee costs and also other costs that have been incurred during the application process. The banking licence is considered to have an indefinite useful life.

Internally generated
Intangible assets relate to development costs, including employee costs, and are recognised if all of the following criteria are met:

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

Intangible assets are amortised on a straight-line basis over their useful lives and the amortisation recorded within 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 year. Assets are stated at cost less accumulated amortisation and any recognised impairment.

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

Notes to the consolidated financial statements (continued)

(h) Impairment of non-financial assets

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

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

(i) Provisions

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

(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 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 Group's functional and presentation currency.

(k) Income tax

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

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

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

Notes to the consolidated financial statements (continued)

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. At the balance sheet date the Group 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 Group 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.

(m) Pension obligations

The Group operates a defined contribution plan. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. It has no further payment obligations once the contributions have been paid. The 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 via options granted under the 2005 Stock Incentive Plan, 2015 Stock Incentive Plan, the Zopa Group Limited Company Share Option Plan and the Zopa Group Limited Joint Share Option Plan. They are all granted, and equity settled by 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.

Notes to the consolidated financial statements (continued)

(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.

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

Significant estimates and judgements include the estimation of the fair value of share-based payments. The Group has used the Black Scholes valuation model to determine the fair value of share-based payments. The significant assumptions used in the Black Scholes model are disclosed in Note 21.

(b) Measurement of the expected credit loss allowance

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

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

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

PD models
The Group has developed PD models, tailored to different types of lending with shared characteristics, to assess the likelihood of default within the next 12 months and over the lifetime of each loan. The models calculate estimates of PDs based upon current characteristics of the loan and observed historical default rates.

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

Economic Scenarios
In its forward-looking adjustments for impairment provision calculations, the Group adopted four economic scenarios (three in December 2018). These scenarios represent the Group's view on potential future economic conditions and how they are expected to impact the credit performance of its portfolios.

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

The Base scenario reflects the most likely outcome, corresponding to a 60% probability, while the Group adopts three alternative scenarios: a more optimistic scenario (Upside, with 10% probability) and two more pessimistic scenarios (Downside, with 20% probability, and Severe Downside, with 10% probability). The Base scenario incorporates an assumption that credit conditions will worsen over a 5-year horizon, while the Upside scenario considers credit conditions will remain stable over this period. The Downside scenario envisages a more severe worsening than what is expected in the Base scenario, while the Severe Downside scenario assumes credit conditions deteriorate even further with a short-medium term shock and a slow path of recovery towards the Base scenario. The calculation of impairment provisions reflects the probability-weighted outputs from the four scenarios.

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

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

Base case scenario: central forecast, assumes economic growth remains relatively subdued, at around 1.5% in 2020. Unemployment is assumed to increase slightly to 4.2% in the near term and then to revert back to 4% over the medium term. The Bank of England gradually raises interest rates to ensure inflation remains near the 2% target. This scenario assumes no significant disruption in the process of the UK leaving the EU.

Upside scenario: assumes that the reduction in political uncertainty, along with positive outcomes from trade negotiations, lead to a revival of confidence and investment, prompting a resurgence in economic activity. This could lead to further reductions in unemployment rates, which could stabilize over of the medium term at a level slightly below what is currently observed. The tight labour market would enable continued gains in real wages, leading to an increase in household income. Positive consumer sentiment would also lead households to take on more debt, however the debt to income ratio would remain stable as debt growth would be offset by gains in household income.

Downside scenario: reflects continued uncertainty about the UK's long-term foreign trade relationships or negotiations resulting in unfavourable conditions for the UK Business investment and consumer spending fall, and GDP essentially flatlines in 2020. Households, facing deteriorating living standards, borrow more and debt to income rises. The unemployment rate rises as the subdued economic growth quickly starts affecting the labour market, reaching its peak at over 5% in 2021.

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

Notes to the consolidated financial statements (continued)

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

Scenario	Probability Weight		5-year peak unemployment rate		5-year peak consumer debt to income ratio	
	2019	2018	2019	2018	2019	2018
Base case	60%	60%	4.2%	4.6%	26.6%	26.3%
Upside	10%	20%	3.7%	4.1%	23.9%	24.0%
Downside	20%	20%	5.3%	5.9%	30.5%	28.2%
Severe downside	10%	-	7.6%	-	33.5%	-

Sensitivity analysis

If the upside scenario were to materialise, the loss allowance as at 31 December 2019, would have been £239k (31 December 2018: £306k). Conversely, under the downside scenario it would have been £389k (31 December 2018: £349k).

4. Interest Income

	2019	2018
	£000	£000
Cash and cash equivalent	16	15
Loans and advances to customers at amortised cost	88	169
Debt securities - held to maturity at amortised cost	62	30
Total interest income calculated using the effective interest method	**166**	**214**
Interest income on lease receivables	609	159
Total interest income	**775**	**373**

5. Interest Expense

	2019	2018
	£000	£000
Interest expense under the effective interest method on:		
- Other interest expense	279	-
Total interest expense arising from financial liabilities measured at amortised cost	**279**	-

6. Fee and commission income

	2019	2018
	£000	£000
Revenue from contracts with customers		
Online marketplace revenue	45,588	37,329
Other income	664	892
Total revenue from contracts with customers	**46,252**	**38,221**

Notes to the consolidated financial statements (continued)

7. Administrative expenses

	Note	2019 £000	2018 £000
Staff Costs	8	32,023	25,384
Information Technology		6,531	5,100
Legal and Professional		3,493	3,667
Depreciation		3,477	1,405
Amortisation		1,692	1,903
Other		4,195	4,786
Total administrative expenses		**51,411**	**42,245**

8. Staff Costs

	Note	2019 £000	2018 £000
Wages and salaries		26,333	20,308
Social Security costs		3,209	2,580
Other pension costs		913	538
Share based payments	21	1,568	1,958
Total staff costs		**32,023**	**25,384**

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

	2019 Number	2018 Number
Loan operations and servicing staff	249	202
Administration	193	167
Total staff	**442**	**369**

9. Directors' Remuneration

	2019 £000	2018 £000
Directors' emoluments	1,284	864
Payments in respect of personal pension plans	18	-
Share based compensation arrangements	114	213
	1,416	**1,077**

Payments in respect of personal pension plans relate to three Directors

Highest paid Director

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

	2019 £000	2018 £000
Emoluments	423	427
Payments in respect of personal pension plans	12	9
Share based compensation arrangements	76	109
	511	**545**

Notes to the consolidated financial statements (continued)

10. The Company's auditors

Services provided by the Company's auditors (excluding VAT):	2019 £000	2018 £000
Fees payable for the audit of the company and consolidated financial statements	73	38
Fees payable for the audit of the company's subsidiaries	163	155
Fees payable for audit related assurance services	109	66
Fees payable for taxation services	-	8
Fees payable for assurance services	74	88
	419	**355**

11. Taxation

a) Tax Credit

	2019 £000	2018 £000
Current tax on losses for the year	(1,681)	(434)
(Over)/under provision in previous years	(1,057)	-
Total credit	**(2,738)**	**(434)**
Deferred Tax	-	-
(Over)/under provision in previous years	-	-
Total deferred tax charge/ (credit)	**-**	**-**
Total tax credit	**(2,738)**	**(434)**

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

b) Reconciliation of effective tax rate

	2019 £000	2018 £000
Loss before tax	**(18,136)**	**(18,295)**
Tax at 19.00% (2018: 19.00%)	(3,446)	(3,476)
Expenses not deductible for tax purposes	121	748
Under provision in previous year	(1,057)	-
Losses for which no deferred tax asset is recognised	2,886	2,438
Loans to participators charge	(70)	402
R&D tax credit	(1,611)	(839)
Other differences	439	293
Total tax credit	**(2,738)**	**(434)**

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 Group can use the benefits therefrom.

c) Unrecognised deferred tax assets

	2019 £000	2018 £000
Deductible temporary differences	-	280
Tax losses carried forward	9,616	8,126
	9,616	**8,406**

Notes to the consolidated financial statements (continued)

12. Debt securities

	2019 £000	2018 £000
Debt securities at amortised cost		
UK government Treasury Bills	243	18,725
	243	**18,725**

Debt securities are expected to be recovered less than 12 months after the reporting date. All debt securities were stage 1 assets under IFRS 9 as at 31 December 2019 and 31 December 2018. There were no significant impairment provisions in respect of expected credit losses as at 31 December 2019 (31 December 2018: nil).

13. Loans and advances to customers

a) Analysis of loans and advances to customers

31 December 2019	**Total £000**
Gross loans and advances to customers	16,814
less: loss allowance for impairment losses	(304)
Total loans and advances to customers	**16,510**
Amounts expected to be recovered more than 12 months after the reporting date	12,050

31 December 2018	**£000**
Gross loans and advances to customers	7,960
less: loss allowance for impairment losses	(323)
Total loans and advances to customers	**7,637**
Amounts expected to be recovered more than 12 months after the reporting date	5,930

b) Finance lease receivables

Gross amounts receivable:	**2019 £000**	**2018 £000**
Less than one year	5,340	2,087
One to five years	13,015	5,792
More than five years	-	-
Gross investment in finance leases	**18,355**	**7,879**
Unearned finance income	(1,775)	(703)
Net investment in finance leases	**16,580**	**7,176**
Less than one year	4,537	1,733
One to five years	12,043	5,443
More than five years	-	-
Net investment in finance leases	**16,580**	**7,176**

Due to the nature of the business undertaken, there are no material unguaranteed residual values for any of the finance leases at 31 December 2019 (31 December 2018: no material residual values).

Notes to the consolidated financial statements (continued)

14. Property, plant and equipment

	Office Equipment £000	Fixtures and fittings £000	Total £000
Cost			
Balance at 1 January 2018	3,605	1,002	4,607
Additions	1,455	381	1,836
Balance at 31 December 2018	**5,060**	**1,383**	**6,443**
Balance at 1 January 2019	5,060	1,383	6,443
Additions	525	6	531
Disposals	(895)	-	(895)
Balance at 31 December 2019	**4,690**	**1,389**	**6,079**
Accumulated depreciation			
Balance at 1 January 2018	1,142	459	1,601
Depreciation for the year	1,022	383	1,405
Balance at 31 December 2018	**2,164**	**842**	**3,006**
Balance at 1 January 2019	2,164	842	3,006
Depreciation for the year	1,177	324	1,501
Disposals	(886)	-	(886)
Balance at 31 December 2019	**2,455**	**1,166**	**3,621**
Carrying amounts			
Balance at 1 January 2018	2,463	543	3,006
Balance at 31 December 2018	2,896	541	3,437
Balance at 31 December 2019	**2,235**	**223**	**2,458**

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year ended 31 December 2019 (31 December 2018: nil). Assets with historic cost of £334k have fully depreciated but are still in use.

Notes to the consolidated financial statements (continued)

15. Leases as a lessee

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

a) Right-of-use assets

	Leasehold Property £000	Total £000
Balance at 1 January 2019	8,961	8,961
Additions	756	756
Depreciation charge for the year	(1,976)	(1,976)
Balance at 31 December 2019	**7,741**	**7,741**

b) Lease Liabilities	Leasehold Property £000	Total £000
Balance at 1 January 2019	9,573	9,573
Additions	680	680
Interest charged during the year	278	278
Payments during the year	(2,231)	(2,231)
Balance at 31 December 2019	**8,300**	**8,300**

Current	2,252
Non-current	(6,048
Total	**8,300**

	2019 £000
Maturity analysis - contractual undiscounted cashflows	
Less than one year	(2,475)
One to five years	(6,303)
More than five years	-
Total undiscounted lease liabilities	**(8,778)**

c) Amounts recognised in the income statement

	2019 £000
Interest on lease liabilities	278
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)	-

d) Amounts recognised in the statement of cashflows

	2019 £000
Total cash outflows for leases	2,231

Notes to the consolidated financial statements (continued)

16. Intangible assets

	Purchased software £000	Internally generated £000	Banking licence £000	Total £000
Cost				
Balance at 1 January 2018	646	3,838	914	5,398
Additions	47	4,709	772	5,528
Balance at 31 December 2018	**693**	**8,547**	**1,686**	**10,926**
Balance at 1 January 2019	**693**	**8,547**	**1,686**	10,926
Additions	-	4,819	177	4,996
Balance at 31 December 2019	**693**	**13,366**	**1,863**	**15,922**
Accumulated amortisation				
Balance at 1 January 2018	181	836	-	1,017
Amortisation for the year	224	1,679	-	1,903
Balance at 31 December 2018	**405**	**2,515**	-	**2,920**
Balance at 1 January 2019	405	2,515	-	2,920
Amortisation for the year	212	1,480	-	1,692
Balance at 31 December 2019	**617**	**3,995**	**-**	**4,612**
Carrying amounts				
Balance at 1 January 2018	465	3,002	914	4,381
Balance at 31 December 2018	288	6,032	1,686	8,006
Balance at 31 December 2019	**76**	**9,371**	**1,863**	**11,310**

17. Provisions

	Total £000
As at 1 January 2018	**274**
Provided/ (released) during the year	509
Utilised during the years	(461)
Balance at 31 December 2018	**322**
Balance at 1 January 2019	**322**
Provided/ (released) during the year	3,857
Utilised during the years	(2,005)
Balance at 31 December 2019	**2,174**

Provisions include £0.8m for dilapidations of leased properties. This is the cost expected to be incurred to return the properties back to the landlords at their initial state. The figure is an estimate based on the incurred costs to furnish the properties on commencement of each lease. £0.6m relates to operational risk events identified late in 2019, with the remaining amount representing contractual commitments to investors based on agreements and loans already disbursed on their behalf.

Notes to the consolidated financial statements (continued)

18. Other Liabilities

	2019	2018
	£000	£000
Other taxation and social security	982	793
Trade creditors	665	206
Other payables	477	1,132
	2,124	**2,131**

19. Share Capital

The balance on the share capital account represents the aggregate nominal value of all preferred and ordinary shares in issue. With effect from 19 November 2018, each Series 1 and Series 2 preferred share of £0.01 were subdivided into and reclassified as a Series 1 or Series 2 share of £0.005 and an Ordinary B share of £0.005. Following this share split and reclassification, the nominal value of the classes of share are:

Ordinary shares: £0.01
Ordinary A shares: £0.01
Ordinary B shares: £0.005
Series 1 preferred shares: £0.005
Series 2A, B and C preferred shares: £0.005
Series 3 preferred shares: £0.01

The balance on the share premium account represents the subscription amounts received in excess of the nominal value of the preference and ordinary shares.

Authorised, issued and fully paid up shares	**Ordinary Shares**	**Ordinary A**	**Ordinary B**	**Series 1 & 2 Preferred Shares**	**Series 3 preferred Shares**	**Total**
Balance at 1 January 2018	**11,557,971**	**835,000**	**-**	**13,736,449**	**4,089,251**	**30,218,671**
Issue of Share Capital	7,812,649	-	13,736,449	-	-	**21,549,098**
Balance at 31 December 2018	**19,370,620**	**835,000**	**13,736,449**	**13,736,449**	**4,089,251**	**51,767,769**
Issue of share capital	876,879			-	-	**876,879**
Balance at 31 December 2019	**20,247,499**	**835,000**	**13,736,449**	**13,736,449**	**4,089,251**	**52,644,648**
Allotted and fully paid up	**20,247,499**	**835,000**	**13,736,449**	**13,736,449**	**4,089,251**	**52,644,648**

	Ordinary Shares £000	**Ordinary A £000**	**Ordinary B £000**	**Series 1 & 2 Preferred Shares £000**	**Series 3 preferred Shares £000**	**Shareholders' Equity £000**
Balance at 1 January 2018	**116**	**8**	**-**	**137**	**41**	**302**
Sub-division of shares	-	-	-	(69)	-	**(69)**
Issue of Share Capital	78	-	69	-	-	**147**
Balance at 31 December 2018	**194**	**8**	**69**	**68**	**41**	**380**
Issue of share capital	9	-	-	-	-	**9**
Balance at 31 December 2019	**203**	**8**	**69**	**68**	**41**	**389**

During 2019 a total of 876,879 ordinary shares were issued to existing investors and in relation to the share-based compensation plans for a total consideration of £4.1m.

Ordinary shares issued as part of the EMI scheme closure are treated as a continuation of the option and omitted from shares and share capital above. The total as at 31 December 2019 was 1,099,425 (2018: 1,305,480).

Dividends

Dividends may be declared pro-rata and pari-passu across all shareholders or a specified class(es) of shareholders save that:

- Ordinary A share dividends are subject to a per-share cap of 0.0084% of any dividend payable per ordinary share and an overall cap of 5% annual yield of the par value of all issued Ordinary A shares; and
- Where a dividend is declared in respect of both (i) Ordinary B shares and (ii) Series1 and/or Series 2 preferred shares then any dividend payable on a Series 1 or Series 2 preferred share is subject to a cap of 0.001% of any dividend payable per share and an aggregate cap of £1 per annum in respect of Series 1 preferred shares and £1 per annum in respect of Series 2 preferred shares.

Liquidation preference

On distribution of assets on a liquidation:

1. Series 3 preferred shares rank ahead of holders of Series 2, Series 1 and ordinary shares in an amount equal to the greater of (i) their initial investment in those Series 3 shares or (ii) such amount as would have been payable for their Series 3 shares if converted to ordinary shares; then
2. On completion of any distribution to holders of Series 3 preferred shares, holders of Series 2 preferred shares rank ahead of holders of Series 1 preferred shares and ordinary shares in an amount up to the value of their initial investment in those Series 2 shares; then
3. On completion of any distribution to holders of Series 2 preferred shares, holders of Series 1 preferred shares rank ahead of holders of ordinary shares in an amount up to the value of their initial investment in those Series 1 shares; then
4. On completion of any distribution to the preferred shareholders, any remaining proceeds would be distributed:
   - first, on a pari passu pro rata basis among the holders of the Deferred Shares (if any) subject to a cap of 0.1% of the nominal value of such shares;
   - second, on a pari passu pro rata basis among the holders of the Ordinary A shares subject to a cap of 6.4% of the nominal value of such shares;
   - third, on a pari passu pro rata basis among the holders of the Ordinary shares (including the Ordinary B shares)

20. Ultimate parent undertaking and controlling party

As at 31 December 2019 the Directors do not consider there to be one single ultimate controlling party. See note 27 for further details of post balance sheet events.

Notes to the consolidated financial statements (continued)

21. Share based payments

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

The fair value of the employee services received in exchange for the grant of options is expensed on the equity basis each reporting period, based on the Company's estimate of shares that will eventually vest and the value of the options as at the date of grant. Set out below are the summaries of options granted by Zopa Group under these share option plans.

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

For options granted during the year the weighted average fair value of the options at the measurement date was £2.1108

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

The share-based payment charge for the year materially represents the value of services provided to the Group by staff whom are part of the equity settled plans disclosed above.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. A Black Scholes option pricing model has been used to calculate the fair value of the options granted in the year. Expected volatility has been set based on the volatility of similar listed companies. Inputs to the model are shown in the table below:

	2019	2018
Expected volatility	35%	35%
Expected life (in years)	5	10
Weighted average share price	£8.5900	£7.8125
Exercise price	£4.49-6.75	£3.00-6.75
Expected dividends	none	none
Risk free rate	0.4 - 0.6%	1.5%

The share-based payment charge in the year was £1,568k (2018: £1,958k).

Notes to the consolidated financial statements (continued)

22. Commitments and contingencies

At 31 December 2019, the Bank had undrawn commitments to lend of £39k (31 December 2018: nil). These relate to irrevocable lines of credit granted to customers (undrawn credit card limits).

Note 15 provides information on financial commitments where the Group is a lessee as per IFRS 16 leases. At the end of the reporting period, the future minimum lease payments under non-cancellable contracts outside the scope of IFRS 16 leases, are payable as follows:

	2019	2018
	£000	£000
Land and buildings		
Under 1 year	-	1,884
Between 1 and 5 years	-	7,039
	-	**8,923**

	2019	2018
	£000	£000
Purchase commitments		
Under 1 year	1,986	1,071
Between 1 and 5 years	2,691	-
Over 5 years	39	1,428
	4,716	**2,499**

23. Related parties

Related party transactions occurred in relation to certain key management personnel, defined as Directors of the Group, who are provided with a Zopa credit card. Included in loans and advances to customers at 31 December 2019 is £2k relating to credit cards issued to Directors. The credit cards are provided on the same terms as the other credit cards offered by the Group to non-related parties.

Notes to the consolidated financial statements (continued)

24. Financial Risk Management

(a) Credit risk

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

Counterparty credit risk arises from the Group's non-consumer counterparties with whom Zopa has cash. 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 external credit rating of partners is monitored.

Maximum exposure to credit risk

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

	31 December 2019 £000	31 December 2018 £000
Cash and balances with other banks	7,221	12,734
Debt securities	243	18,725
Loans and advances to customers	16,814	7,960
Other assets	5,937	5,743
Total	**30,215**	**45,162**
Undrawn credit limits	39	-
Gross credit risk exposure	**30,254**	**45,162**
Less: allowance for credit losses	(304)	(323)
Net credit risk exposure	**29,950**	**44,839**

The Group holds collateral for loans and advances to customers under Hire Purchase agreements in order to mitigate credit risk. The collateral held is the asset, motor vehicle, which is subject to the hire purchase agreement. No collateral is held against unsecured loans.

Loans and advances to customers

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

	31 December 2019 £000	31 December 2018 £000
Gross loans and advances to customers	16,814	7,960
less: loss allowance for impairment losses	(304)	(323)
Total loans and advances to customers	**16,510**	**7,637**
Amounts expected to be recovered more than 12 months after the reporting date	12,050	5,930

Notes to the consolidated financial statements (continued)

Loss allowance

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

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loss allowance 1 January 2019	**52**	**64**	**207**	**323**
Changes reflected in impairment loss				
Transfer from Stage 1 to Stage 2	(29)	173	-	**144**
Transfer from Stage 1 to Stage 3	-	-	15	**15**
Transfer from Stage 2 to Stage 1	14	(54)	-	**(40)**
New financial asset originations/purchases	345	4	-	**349**
Changes in PD/ LGD/ EAD	-	(53)	106	**53**
Change in model risk parameters	-	6	8	**14**
Discount Unwind	-	-	(30)	**(30)**
Derecognition/maturity of financial assets	(273)	(11)	(26)	**(310)**
Recoveries	-	-	(15)	**(15)**
Net P&L charge during the year	**57**	**65**	**58**	**180**
Other movements with no Profit and Loss impact				
Write-offs	-	-	(214)	**(214)**
Transfer from Stage 2 to Stage 3	-	(57)	57	-
Loss allowance at 31 December 2019	**109**	**72**	**123**	**304**

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loss allowance 1 January 2018	**50**	**108**	**95**	**253**
Changes reflected in impairment loss				
Transfer from Stage 1 to Stage 2	(28)	138	-	**110**
Transfer from Stage 2 to Stage 1	29	(86)	-	**(57)**
New financial asset originations/purchases	28	-	-	**28**
Changes in PD/ LGD/ EAD	(16)	5	21	**10**
Discount Unwind	-	-	5	**5**
Derecognition/ maturity of financial assets	(11)	(4)	(11)	**(26)**
Net P&L charge during the year	**2**	**53**	**15**	**70**
Other movements with no Profit and Loss impact				
Transfer from Stage 2 to Stage 3	-	(97)	97	-
Loss allowance at 31 December 2018	**52**	**64**	**207**	**323**

Notes to the consolidated financial statements (continued)

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

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross carrying amount at 1 January 2019	**7,267**	**438**	**255**	**7,960**
New financial asset originations/purchases	24,856	117	6	**24,979**
Repayments/derecognition of financial assets	(15,543)	(309)	(59)	**(15,991)**
Transfer from Stage 1 to Stage 2	(1,872)	1,872	-	-
Transfer from Stage 2 to Stage 1	600	(600)	-	-
Transfer from Stage 2 to Stage 3	-	(170)	170	-
Write offs	-	-	(214)	**(214)**
Gross carrying amount at 31 December 2019	**15,308**	**1,348**	**158**	**16,814**

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross carrying amount at 1 January 2018	**1,174**	**285**	**112**	**1,571**
New financial asset originations/purchases	7,991	-	-	**7,991**
Repayments/derecognition of financial assets	(1,495)	(89)	(20)	**(1,604)**
Transfer from Stage 1 to Stage 2	(730)	739	-	**9**
Transfer from Stage 2 to Stage 1	327	(334)	-	**(7)**
Transfer from Stage 2 to Stage 3	-	(163)	163	-
Gross carrying amount at 31 December 2018	**7,267**	**438**	**255**	**7,960**

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

<u>Internal rating scales</u>

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

31 December 2019	**Stage 1** **£000**	**Stage 2** **£000**	**Stage 3** **£000**	**Total** **£000**
Lowest risk	6,620	176	-	**6,796**
Mid-risk	5,106	536	41	**5,683**
Highest risk	3,582	636	117	**4,335**
Total	**15,308**	**1,348**	**158**	**16,814**

31 December 2018	**Stage 1** **£000**	**Stage 2** **£000**	**Stage 3** **£000**	**Total** **£000**
Lowest risk	957	83	211	**1,251**
Mid-risk	4,472	95	-	**4,567**
Highest risk	1,838	260	44	**2,142**
Total	**7,267**	**438**	**255**	**7,960**

Notes to the consolidated financial statements (continued)

Collateral held as security for financial assets

The Group holds collateral against loans and advances to customers for the auto hire purchase portfolio, in the form of motor vehicles. An analysis by loan-to-value (LTV) ratio is presented below. The value of collateral used in determining the LTV ratios has been estimated based upon the asset valuation performed at origination.

31 December 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£000	**£000**	**£000**	**£000**
Greater than 100%	2,199	213	17	**2,429**
90% to 100%	5,605	700	47	**6,352**
80% to 90%	3,042	229	4	**3,275**
70% to 80%	1,923	81	-	**2,004**
Below 70%	2,350	100	-	**2,450**
Total	**15,119**	**1,323**	**68**	**16,510**

31 December 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£000	**£000**	**£000**	**£000**
Greater than 100%	816	66	-	**882**
90% to 100%	1,857	123	-	**1,980**
80% to 90%	1,444	22	13	**1,479**
70% to 80%	1,219	56	-	**1,275**
Below 70%	1,487	43	-	**1,530**
Total	**6,823**	**310**	**13**	**7,146**

The Group does not take physical possession of properties or other assets held as collateral and uses external agents to realise the value immediately after the loan default event, a voluntary surrender of the asset or a voluntary termination of the loan. Any surplus funds are returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations.

No collateral is held in respect of retail credit cards, overdrafts, or unsecured personal loans.

Payment plans (Forbearance)

The Group encourages borrowers who are experiencing financial difficulties to draw up an affordable payment plan to pay down their arrears over time. Payment plans may offer temporary relief in the form of reductions to contractual payments.

At 31 December 2019, total forborne loans were £58k (31 December 2018: £60k), of which £37k were impaired (31 December 2018 : £44k). At 31 December 2019, the allowance for loan losses held in respect of forborne loans was £35k (2018: £47k).

(b) Treasury counterparty credit risk

Credit risk exists where we have acquired securities or placed cash deposits with other financial institutions as part of our treasury portfolio of assets. We consider the credit risk of treasury assets to be relatively low. No assets are held for speculative purposes or actively traded. Certain liquid assets are held as part of our liquid assets buffer. At 31 December 2019 all treasury assets were in Stage 1. The table below sets out information about the credit quality of treasury financial assets:

Notes to the consolidated financial statements (continued)

	31 December 2019 £000	31 December 2018 £000
Loans and advances to banks		
Rated A+ to A-	7,221	11,681
Unrated	-	963
High quality liquid assets included in the liquid assets buffer		
Rated AAA	243	18,725

(c) Liquidity risk

Liquidity risk is the risk that the Group 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; holding sufficient liquidity resources; reducing loan disbursals and raising deposit rates to increase inflows to meet its liquidity needs, and minimum regulatory requirements, in both a base case and a stress case scenario. The liquidity position is monitored on an ongoing basis.

Liquid assets

	31 December 2019 £000	31 December 2018 £000
Unencumbered cash and bank balances	7,137	12,644
UK Treasury bills and Money Market Funds	243	18,725
Total liquid assets	**7,380**	**31,369**

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

Assets 31 December 2019	**Up to 1 month £000**	**1 to 3 months £000**	**3 to 12 months £000**	**1 to 5 years £000**	**Over 5 years £000**	**Total £000**
Cash and balances with other banks	7,221	-	-	-	-	**7,221**
Debt securities	243	-	-	-	-	**243**
Loans and advances to customers	194	14	78	16,224	-	**16,510**
Other assets	1,465	2,598	4,552	20,594	1,863	**31,072**
Total	**9,123**	**2,612**	**4,630**	**36,818**	**1,863**	**55,046**

Liabilities 31 December 2019	**Up to 1 month £000**	**1 to 3 months £000**	**3 to 12 months £000**	**1 to 5 years £000**	**Over 5 years £000**	**Total £000**
Amounts due to banks	21	-	-	-	-	**21**
Lease liabilities	2	555	1,695	6,048	-	**8,300**
Other liabilities	2,214	6,225	128	1,623	-	**10,190**
Total	**2,237**	**6,780**	**1,823**	**7,671**	-	**18,511**

Notes to the consolidated financial statements (continued)

Assets 31 December 2018	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Cash and balances with other banks	12,644	-	-	-	-	**12,644**
Debt securities	7,738	10,987	-	-	-	**18,725**
Loans and advances to customers	25	10	4	7,598	-	**7,637**
Other assets	2,683	937	1,733	13,032	-	**18,385**
Total	**23,090**	**11,934**	**1,737**	**20,630**	**-**	**57,391**

Liabilities 31 December 2018	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Trade Creditors	206	-	-	-	-	**206**
Other liabilities	6,647	1,458	-	177	-	**8,282**
Total	**6,853**	**1,458**	**-**	**177**	**-**	**8,488**

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

Liabilities 31 December 2019	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Amounts due to banks	21	-	-	-	-	**21**
Lease liabilities	23	596	1,856	6,303	-	**8,778**
Other liabilities	2,471	2,729	3,354	1,600	-	**10,154**
Total	**2,515**	**3,325**	**5,210**	**7,903**	**-**	**18,953**

Liabilities 31 December 2018	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Trade creditors	206	-	-	-	-	**206**
Other liabilities	6,647	1,458	-	177	-	**8,282**
Total	**6,853**	**1,458**	**-**	**177**	**-**	**8,488**

(d) 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 Group does not have a trading book. The Group's market risk consists primarily of exposure to changes in interest rates, and change in prices of marketable securities held in liquid assets buffer. Interest rate risk is the risk that the net value of, or net income arising from, the firm's assets and liabilities is impacted as a result of changes to interest rates. Financial Assets are limited to fixed interest rate loans and advances to customers, UK Government T-Bills and Money Market Funds (MMF) and loans and advances to banks. The Group did not have any material retail deposits (a small amount for bank testing) as at 31 December 2019.

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

	31 December 2019 £000	31 December 2018 £000
2% shift up of the yield curve	(574)	(329)
2% shift down of the yield curve	618	363

(e) Capital risk and management

Capital risk is the risk that the Group has insufficient capital to cover regulatory requirements and/or support its growth plans. The Group's objective when managing capital is to safeguard its ability to continue as a going concern. Financial performance is regularly reviewed by various committees in the business, focusing on the amount of regulatory capital needed. This is especially important as the business continues to expand. The process includes the monitoring of the annual budget and forecast process from which cash flow and capital assessments and projections are made. Capital consists of shareholders' equity.

Notes to the consolidated financial statements (continued)

25. Financial instruments and fair values

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

31 December 2019	At FVOCI £000	At amortised cost £000	Total £000
Cash and balances with other banks	-	7,221	7,221
Debt securities	-	243	243
Loans and advances to customers	184	16,326	16,510
Other assets	-	2,373	2,373
Total financial assets	**184**	**26,163**	**26,347**
Amounts due to banks	-	21	21
Customers' accounts	-	-	-
Other liabilities	-	2,124	2,124
Total financial liabilities	-	**2,145**	**2,145**
31 December 2018			
Cash and balances with other banks	-	12,734	12,734
Debt securities	-	18,725	18,725
Loans and advances to customers	-	7,637	7,637
Other assets	-	2,230	2,230
Total financial assets	-	**41,326**	**41,326**
Amounts due to banks	-	99	99
Customers' accounts	-	-	-
Other liabilities	-	2,131	2,131
Total financial liabilities	-	**2,230**	**2,230**

There were no reclassifications of financial assets or liabilities during the year ended 31 December 2019.

Notes to the consolidated financial statements (continued)

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

	2019		2018	
31 December	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Cash and balances with other banks	7,221	7,221	12,734	12,734
Debt securities	243	243	18,725	18,725
Loans and advances to customers	16,510	15,583	7,637	7,637
Other assets	2,373	2,373	2,230	2,230
Total financial assets (at amortised cost)	**26,347**	**25,420**	**41,326**	**41,326**
Amounts due to banks	21	21	99	99
Customers' accounts	-	-	-	-
Other liabilities	2,124	2,124	2,131	2,131
Total financial liabilities (at amortised cost)	**2,145**	**2,145**	**2,230**	**2,230**

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 other banks

These represent either amounts with an initial maturity of less than three months or longer term variable rate deposits placed with banks, where adjustments to fair value in respect of the credit risk of the counterparty are not considered necessary. Accordingly, the carrying value of the assets is considered to be not materially different from their fair value.

(b) Loans and advances to customers

For fixed rate lending products, the Bank 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) Other assets and liabilities

These represent short term receivables and payables and as such, their carrying value is not considered to be materially different from their fair value.

(d) 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.

Notes to the consolidated financial statements (continued)

26. Representation Reconciliation

The tables below show shows a reconciliation of financial lines items in the statement of financial position and the income statement as at 31 December 2018 between the new format and the old format.

Assets	PPE	Intangible Assets	Non-current Loans and receivables	Trade, loans and other receivables	Current tax asset	Debt Securities	Cash at bank	Total
Cash and advances to banks	-	-	-	90	-	-	12,644	12,734
Debt securities	-	-	-	-	-	18,725	-	18,725
Loans and advances to customers	-	-	7,597	40	-	-	-	7,637
Prepayments and accrued income	-	-	200	3,313	-	-	-	3,513
Other assets	-	-	1,573	657	-	-	-	2,230
Property, plant and equipment	3,437	-	-	-	-	-	-	3,437
Right of use assets	-	-	-	-	-	-	-	-
Intangible assets	-	8,006	-	-	-	-	-	8,006
Current tax asset	-	-	-	-	1,109	-	-	1,109
Total Assets	**3,437**	**8,006**	**9,370**	**4,100**	**1,109**	**18,725**	**12,644**	**57,391**

Liabilities	Trade and other payables	Total
Amounts due to banks	99	99
Accruals and deferred income	5,936	5,936
Provisions	322	322
Other liabilities	2,131	2,131
Lease liabilities	-	-
Total Liabilities	**8,488**	**8,488**

Items of equity have not been reclassified or restated.

Notes to the consolidated financial statements (continued)

Income Statement	Revenue	Cost of Sales	Distribution Expenses	Administrative Expenses	Other interest and similar income	Credit Impairment losses	Loss before taxation
Interest Income	324	-	-	-	49	-	373
Interest Expense	-	-	-	-	-	-	-
Net Interest Income	**324**	**-**	**-**	**-**	**49**	**-**	**373**
Fee and Commission Income	38,221	-	-	-	-	-	38,221
Fee and Commission Expense	-	(4,409)	(8,813)	(1,352)	-	-	(14,574)
Total Operating Income	**38,545**	**(4,409)**	**(8,813)**	**(1,352)**	**49**	**-**	**24,020**
Administrative Expenses	5	-	-	(42,250)	-	-	(42,245)
Operating loss before impairment losses	**38,550**	**(4,409)**	**(8,813)**	**(43,602)**	**49**	**-**	**(18,225)**
Impairment losses on loans and advances to customers	-	-	-	-	-	(70)	(70)
Loss before taxation	**38,550**	**(4,409)**	**(8,813)**	**(43,602)**	**49**	**(70)**	**(18,295)**

Items following Loss before taxation have not been reclassified or restated.

27. Post balance sheet events

As a result of the coronavirus events and the subsequent impact on the economy, management has assessed, and continues to assess, the resulting risk and uncertainties with appropriate mitigation actions taken. These are disclosed in the risks and uncertainties of the strategic report. Management has also assessed whether any assets as at 31 December 2019 may need impairment as a result of the impact on the economy and concluded that such impairment was not necessary. Post year end and as a result of the coronavirus, 13% of the loan portfolio (£1.85m) has been impacted by COVID-19. It is difficult to assess the effectiveness of the government interventions, but it is estimated that the additional credit losses from this population could range between £130k and £450k.

Between January and May 2020 the Group received a total of £2m of additional funding in exchange for 995,894 ordinary shares. 630,944 of these were converted into ordinary C shares in June.

In June 2020 the Group received £138m of additional funding in exchange for 43,538,617 ordinary C shares. Following the change in control in June 2020, the Directors consider IAG Silverstripe Partners LLC to be the ultimate controlling party. Silverstripe are represented on the Board by Nicholas Aspinall and Scott Christopher Jones.

In June 2020 both Zopa Holdings Inc and Zopa Inc were dissolved with Zopa Group Limited becoming the immediate parent of Zopa Limited as part of a corporate restructure.

In June 2020 the Group met all PRA and FCA requirements to enable the lifting of restrictions on its banking licence and these restrictions were lifted on 23 June 2020.

Zopa Group Limited

Company Financial Statements

for the year ended 31 December 2019

Company statement of financial position as at 31 December 2019

	Note	31 December 2019 £000	(Represented[1]) 31 December 2018 £000	(Represented[1]) 1 January 2018 £000
Assets				
Cash and balances with other banks		774	6,288	894
Debt securities	4	-	8,706	-
Amounts due from other Group undertakings	5	3,044	2,149	6,727
Prepayments and accrued income		103	96	54
Current tax asset		65	-	-
Investment in Subsidiaries	7	76,016	103,400	62,282
Total Assets		**80,002**	**120,639**	**69,957**
Liabilities				
Amounts due to other Group undertakings	6	725	62	-
Accruals and deferred income		1,928	160	103
Other liabilities		17	658	78
Current tax liability		-	402	-
Total Liabilities		**2,670**	**1,282**	**181**
Equity				
Share capital		389	380	302
Share premium		57,951	56,342	7,853
Other reserves		65,517	63,949	61,991
Retained losses		(46,525)	(1,314)	(370)
Total Equity		**77,332**	**119,357**	**69,776**
Total Liabilities and Equity		**80,002**	**120,639**	**69,957**

The notes on pages 61-68 form part of these financial statements.

The financial statements of Zopa Group Limited (Registered Number 10624955) were approved by the Board of Directors on 21 July 2020 and were signed on its behalf by:

DocuSigned by:
Jaidev Janardana
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Jaidev Janardana
Director
7 August 2020

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

Company statement of changes in equity for the year ended 31 December 2019

	Share Capital £000	Share Premium £000	Other Reserves £000	Retained Losses £000	**Shareholders' Equity £000**
Balance at 1 January 2018	**302**	**7,853**	**61,991**	**(370)**	**69,776**
Comprehensive income					
Loss for the year	-	-	-	(944)	**(944)**
Total comprehensive expense	**-**	**-**	**-**	**(944)**	**(944)**
Transactions with owners					
Issue of share capital	78	48,489	-	-	**48,567**
Share based payment charge	-	-	1,958	-	**1,958**
Total transactions with owners	**78**	**48,489**	**1,958**	**-**	**50,525**
Balance at 31 December 2018	**380**	**56,342**	**63,949**	**(1,314)**	**119,357**
Comprehensive income					
Loss for the year	-	-	-	(45,211)	**(45,211)**
Total comprehensive expense	**-**	**-**	**-**	**(45,211)**	**(45,211)**
Transactions with owners					
Issue of share capital (net of transaction costs)	9	1,609	-	-	**1,618**
Share based payment charge	-	-	1,568	-	**1,568**
Total transactions with owners	**9**	**1,609**	**1,568**	**-**	**3,186**
Balance at 31 December 2019	**389**	**57,951**	**65,517**	**(46,525)**	**77,332**

The notes on pages 61-68 form part of these financial statements.

Other Reserves consist of a Merger Reserve created in 2017 by a corporate reorganisation, a Share Based Payments Reserve and a Currency Translation Reserve. Transactions costs accounted for during the year as a deduction of share premium totalled £2,504k (2018: £1,225k). Further information in relation to share capital and share based payments can be found in note 19 to the consolidated financial statements and note 21 to the consolidated financial statements respectively.

Company statement of cashflows for the year ended 31 December 2019

	31 December 2019 £000	(Represented[1]) 31 December 2018 £000
Cash flows from operating activities		
Loss before taxation	(45,282)	(542)
Adjustments for:		
Change in operating assets	116	6,536
Change in operating liabilities	1,088	699
Non-cash and other items	43,922	(13)
Taxation (paid)/ received	(397)	-
Net cash (used in)/ generated from operating activities	**(553)**	**6,680**
Cash flows from investing activities		
Investment in subsidiaries	(15,000)	(39,160)
Interest received on debt securities	32	13
Net cash used in investing activities	**(14,968)**	**(39,147)**
Cash flows from financing activities		
Issue of new shares (net of transaction costs)	1,618	48,567
Loan provided to other group undertakings	(317)	(2,000)
Net cash provided by financing activities	**1,301**	**46,567**
Net (decrease) / increase in cash and cash equivalent	**(14,220)**	**14,100**
Cash and cash equivalent at the start of the year	14,994	894
Movement during the year	(14,220)	14,100
Cash and cash equivalent at the end of the year	**774**	**14,994**
Cash and cash equivalents consists of:		
Cash and balances with other banks	774	6,288
Debt securities	-	8,706
Cash and cash equivalents at the end of the year	**774**	**14,994**

The notes on pages 61-68 form part of these financial statements.

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

Notes to the Company financial statements

1. Basis of preparation

(a) Accounting basis

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 1.

These financial statements have been prepared in accordance with IFRS as adopted by the EU and interpretations issued by the IFRS Interpretations Committee and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

Details of new and amended standards adopted by the Company and new standards, amendments and interpretations issued but not mandatory effective before 31 December can be found in note 1 to the Consolidated financial statements. Principal risks and uncertainties, including capital risk, are disclosed in the strategic report (pages 7-10).

(b) Going concern

As detailed in note 1c to the consolidated financial statements, the Directors have performed an assessment of the appropriateness of the going concern basis. The Directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

(c) Income statement

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement. The loss after tax of the Company for the year ended 31 December 2019 was £45.2m (2018: £0.9m).

2. Significant accounting policies

The significant accounting policies adopted are set out in note 2 to the consolidated financial statements, with any additional accounting policies set out below.

(a) Investment in subsidiaries

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

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

(b) Share based payments

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

The fair value of options granted is recognised as an investment in subsidiaries with a corresponding increase in equity.

Notes to the Company financial statements (continued)

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) Valuation of investment in subsidiaries

The carrying value of the investment in subsidiaries cannot exceed the recoverable amount. The recoverable amount of the investment is a critical estimate. The Company is required to assess if the investment is impaired at the end of each reporting period. The recoverable amount is the greater of the value in use or the fair value less costs to sell. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In arriving at the recoverable amount the Company uses the latest board approved forecasts extrapolated as required using long term growth rates. At the end of the reporting period the Company determined that an impairment of its investment in subsidiary, Zopa Limited, was necessary. See note 7 for further details.

Key assumptions used in the calculation of VIU were the following:

- Cash flows were projected based on past experience, actual operating results and the five-year business plan. Cash flows after the planning period were extrapolated using a constant growth rate of 1.5% into perpetuity.
- A pre-tax discount rate was applied in determining the recoverable amounts for the business. The discount rates were based on the weighted average cost of capital.

4. Debt securities

	2019	2018
	£000	£000
Debt securities at amortised cost		
UK government Treasury Bills	-	8,706
	-	**8,706**

At 31 December 2019, £nil (2018: £8.7 million) of debt securities are expected to be recovered less than 12 months after the reporting date.

All debt securities were stage 1 assets under IFRS 9 as at 31 December 2019 and 31 December 2018. There were no significant impairment provisions in respect of expected losses as at 31 December 2019 (2018: nil).

5. Amounts due from other group undertakings

At 31 December 2019 £24k receivable was due from Zopa Limited (2018: nil), and no receivable was due from Zopa Bank Limited (2018: £148k).

Additionally, an amount of £3.0m (2018: nil) is due from Zopa Bank Limited and nil (2018 £2.0m) is due from Zopa Limited under an open credit facility with a final repayment date of 25 January 2024. The facility bears at arm's length interest equal to the Bank of England base rate plus a 2% margin.

During the year the Company charged interest of £26k to Zopa Limited (2018: £2k) and £20k to Zopa Bank (2018: nil) in relation to intercompany loans. Amounts have been settled in full.

6. Amounts due to other group undertakings

At 31 December 2019 £24k was due to Zopa Bank Limited (2018: nil) and no payable was due to Zopa Limited (2018: £62k). Amounts have been settled in full post year end.

Notes to the Company financial statements (continued)

Additionally, a loan of £701k is due to Zopa Limited (2018: nil). The loan is repayable on 24 January 2024, with an option to extend, and bears at arm's length interest equal to the Bank of England base rate plus a 2% margin. Interest of £1k (2018: nil) was charged in the year. Amounts have been settled in full.

During the year the Company was charged administrative costs of £483k by Zopa Bank Limited (2018: £83k) and £553k by Zopa Limited (2018: £225k).

7. Investment in subsidiaries

	£000
Balance at 1 January 2018	**62,282**
Share purchase	39,160
Capital contribution for share based payments	1,958
Balance at 31 December 2018	**103,400**
Balance at 1 January 2019	**103,400**
Share purchase	15,000
Capital contribution for share based payments	1,568
Impairment of investment in subsidiaries	(43,952)
Balance at 31 December 2019	**76,016**

The Company has impaired the carrying value of its investment in subsidiaries due to a fall in the recoverable amount of Zopa Limited, one of the subsidiaries. The recoverable amount, as calculated by reference to Fair Value less Costs to Sell using an Enterprise Value / Revenue multiple of 1.9, is now estimated to be £20m. As a result an impairment of £44.0m has been recognised in these financial statements. A 5% decrease in the earnings multiple would have reduced the fair value estimate of Zopa Limited by £1m.

The Company has an interest in the total ordinary share capital of the following subsidiaries. All subsidiary undertakings are included in the consolidated financial statements.

Subsidiary undertaking	Place of incorporation	Ownership interest	Trading status
Zopa Bank Limited	UK	100%	Trading
Zopa Holdings Inc	USA	100%	Holding
Zopa Limited	UK	100%	Trading
Zopa Inc	USA	100%	Dormant
P2PS Cars Limited	UK	100%	Dormant

The registered office for all subsidiary undertakings is 1st Floor, Cottons Centre, 47-49 Tooley Street, London, England, SE1 2QG.

Individual financial statements for Zopa Limited (company number 05197592) and Zopa Bank Limited (company number 10627575) can be obtained from Companies House.

For further information regarding post balance sheet events see note 15.

8. Risk Management

Through its Risk Management Framework, the Group is responsible for determining its principal risks, and the level of acceptable risks, as stipulated in the Group's risk appetite statement, thus ensuring that there is an adequate system of risk management so that the levels of capital and liquidity held are consistent with the risk profile of the business. The risk management disclosures of the Group in the Risk Management Report on pages 8-11 of the Strategic Report apply to the Company where relevant.

The principle risk for the Company relates to the impairment of the investment in subsidiaries as mentioned in note 2 a) and note 7.

Notes to the Company financial statements (continued)

9. Directors' Remuneration

The Company had no employees in 2019 (2018: none). Directors are paid via other Group entities

	2019 £000	2018 £000
Directors' emoluments	444	41
Payments in respect of personal pension plans	6	-
Share based compensation arrangements	46	-
	496	**41**

Payments in respect of personal pension plans relate to two Directors

Highest paid Director

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

	2019 £000	2018 £000
Emoluments	169	41
Payments in respect of personal pension plans	5	-
Share based compensation arrangements	30	-
	204	**41**

10. Related party transactions

There were no related party transactions in relation to key management personnel who are defined as the Directors of the Company.

11. Controlling party information

As at 31 December the Directors do not believe there to be one single ultimate controlling party. For further information regarding post balance sheet events see note 15.

12. Representation Reconciliation

The tables below show shows a reconciliation of financial lines items in the statement of financial as at 31 December 2018 between the new format and the old format.

Assets	Investments in subsidiaries	Non-current Loans and receivables	Trade, loans and other receivables	Debt Securities	Cash at bank	**Total**
Cash and balances with other banks	-	-	-	-	6,288	6,288
Debt securities	-	-	-	8,706	-	8,706
Amounts due from Group undertakings	-	2,000	149	-	-	2,149
Prepayments and accrued income	-	-	96	-	-	96
Current tax asset	-	-	-	-	-	-
Investment in Subsidiaries	103,400	-	-	-	-	103,400
Total Assets	**103,400**	**2,000**	**245**	**8,706**	**6,288**	**120,639**

Notes to the Company financial statements (continued)

Liabilities	Trade and other payables	Total
Amounts due to other Group undertakings	62	62
Accruals and deferred income	160	160
Other liabilities	658	658
Current tax liabilities	402	402
Total Liabilities	**1,282**	**1,282**

Items of equity have not been reclassified or restated.

13. Financial Risk Management

(a) Credit risk

Treasury credit risk exists where we have acquired securities or placed cash deposits with other financial institutions as part of our treasury portfolio of assets. We consider the credit risk of treasury assets to be relatively low. No assets are held for speculative purposes or actively traded. Certain liquid assets are held as part of our liquid assets buffer. At 31 December 2019 no treasury assets were held and at 31 December 2018 all assets were in Stage 1.

Counterparty credit risk arises from the Company's non-consumer counterparties with whom Zopa has cash. 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 external credit rating of partners is monitored.

Maximum exposure to credit risk

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

	31 December 2019 £000	31 December 2018 £000
Cash and balances with other banks	774	6,288
Debt securities	-	8,706
Investment in Subsidiaries	76,016	103,400
Other assets	3,212	2,245
Total credit risk exposure	**80,002**	**120,639**

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The liquidity position is monitored on an ongoing basis.

Liquid assets

	31 December 2019 £000	31 December 2018 £000
Unencumbered cash and bank balances	774	6,288
UK Treasury bills and Money Market Funds	-	8,706
Total liquid assets	**774**	**14,994**

Notes to the Company financial statements (continued)

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

Assets 31 December 2019	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Cash and balances with other banks	774	-	-	-	-	**744**
Debt securities	-	-	-	-	-	**-**
Investment in Subsidiaries	-	-	-	-	76,016	**76,016**
Other assets	54	20	138	3,000	-	**3,212**
Total	**828**	**20**	**138**	**3,000**	**76,016**	**80,002**

Liabilities 31 December 2019	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Amounts due to other Group undertakings	725	-	-	-	-	**725**
Other liabilities	-	1,945	-	-	-	**1,945**
Total	**725**	**1,945**	**-**	**-**	**-**	**2,670**

Assets 31 December 2018	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Cash and balances with other banks	6,288	-	-	-	-	**6,288**
Debt securities	8,706	-	-	-	-	**8,706**
Investment in Subsidiaries	-	-	-	-	103,400	**103,400**
Other assets	159	20	66	2,000	-	**2,245**
Total	**15,153**	**20**	**66**	**2,000**	**103,400**	**120,639**

Liabilities 31 December 2018	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Amounts due to other Group undertakings	62	-	-	-	-	**62**
Other liabilities	-	818	402	-	-	**1,220**
Total	**62**	**818**	**402**	**-**	**-**	**1,282**

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

Liabilities 31 December 2019	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Amounts due to other Group undertakings	725	-	-	-	-	**725**
Other liabilities	-	1,945	-	-	-	**1,945**
Total	**725**	**1,945**	**-**	**-**	**-**	**2,670**

Notes to the Company financial statements (continued)

Liabilities 31 December 2018	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Amounts due to other Group undertakings	62	-	-	-	-	62
Other liabilities	-	818	402	-	-	1,220
Total	**62**	**818**	**402**	**-**	**-**	**1,282**

14. Financial instruments and fair values

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

	2019		2018	
31 December	**Carrying amount £000**	**Fair value £000**	**Carrying amount £000**	**Fair value £000**
Cash and balances with other banks	774	774	6,288	6,288
Debt securities	-	-	8,706	8,706
Other assets	3,212	3,212	2,245	2,245
Total financial assets (at amortised cost)	**3,986**	**3,986**	**17,239**	**17,239**
Other liabilities	2,670	2,670	1,282	1,282
Total financial liabilities (at amortised cost)	**2,670**	**2,670**	**1,282**	**1,282**

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 other banks

These represent either amounts with an initial maturity of less than three months or longer term variable rate deposits placed with banks, where adjustments to fair value in respect of the credit risk of the counterparty are not considered necessary. Accordingly, the carrying value of the assets is considered to be not materially different from their fair value

(b) Other assets and liabilities

These represent short term receivables and payables and as such, their carrying value is not considered to be materially different from their fair value.

15. Share Capital

Details of the Company's share capital can be found in note 19 to the consolidated financial statements

Notes to the Company financial statements (continued)

16. Post balance sheet events

Between January and May 2020 the Company received a total of £2m of additional funding in exchange for 995,894 ordinary shares. 630,944 of these were converted into ordinary C shares in June.

In June 2020 the Company received £138m of additional funding in exchange for 43,538,617 ordinary C shares.

Following the change in control in June 2020, the Directors consider IAG Silverstripe Partners LLC to be the ultimate controlling party. Silverstripe are represented on the Board by Nicholas Aspinall and Scott Christopher Jones.

In June 2020 both Zopa Holdings Inc and Zopa Inc were dissolved with Zopa Group Limited becoming the immediate parent of Zopa Limited as part of a corporate restructure.

In February 2020, the Company purchased 158,969 ordinary shares in Zopa Bank Limited, for cash consideration of £159k and In April 2020, the Company purchased 3,000,000 ordinary shares in Zopa Bank Limited, for cash consideration of £3m. In June 2020 the Company purchased 135,000,000 ordinary shares in Zopa Bank Limited, for cash consideration of £135m.

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