

Registered number: 10624955

**Zopa Group Limited**  
**Annual Report and Financial Statements**  
**for the year ended 31 December 2018**



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

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# Directors and professional advisers

## Directors

Giles Andrews  
Charles Birnbaum  
Christine Farnish  
Richard Goulding  
Peter Herbert  
Jaidev Janardana  
Tim Levene  
Gordon McCallum  
Nigel Morris  
Kapil Wadhawan

## Secretary

Olivia Broderick

## Registered office

1<sup>st</sup> Floor Cottons Centre  
47-49 Tooley Street  
London  
England  
SE1 2QG

## Registered number

Registered number: 10624955

## Bankers

National Westminster Bank  
1 Princes Street  
London  
EC2R 8BP

## Independent auditors

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

# Strategic report for the year ended 31 December 2018

## Principal activities

The principal activity of Zopa 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 marketplace ("P2P") lending platform which allows individuals in the United Kingdom to access unsecured loans, facilitated by funds provided by both individuals and institutions; and
- ii. the creation of a next generation bank, in order to expand the Group's simple and fair model into new banking products and offer customers more choice.

## Business Review

In February 2018, Zopa Bank Limited submitted its full Banking Licence application to the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA), and the application was approved with restrictions by the PRA and FCA in December 2018.

To support the creation of the next generation bank, the Group successfully completed a round of fund raising in November 2018, which secured £50 million in new funding from new and existing investors.

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

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

The results of the Group for the year show a loss after tax of £17.8 million (2017: loss of £4.3 million). The increased loss reflects the focus and investment by the Group to build and launch its new products and services for the next generation bank.

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

In addition to technology, the Group also continued to grow its product development, customer service, risk management and finance functions. The Group's overall headcount increased to 426 at 31 December 2018 compared to 327 as at 31 December 2017: a growth rate of 30%.

## Awards

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

- Moneyfacts Consumer award for Best Customer Service
- Fairer Finance's Gold Ribbon for customer experience

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

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

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

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

### Key performance indicators ("KPIs")

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

	Year ended 31 December 2018	Year ended 31 December 2017	Comments
Revenue	£38,550k	£43,980k	Group revenue has fallen due to the decision to close the Safeguard fund in December 2017
Revenue excluding safeguard fund	£36,981k	£35,862k	Excluding the impact of the Safeguard fund, revenue increased slightly, driven by higher volume of loan disbursements on the P2P platform in 2018
Gross Profit	£34,141k	£33,634k	Gross profit has remained stable at £34m. Gross profit includes both the revenue and costs of the Safeguard fund, and because these revenue and costs broadly balance, gross profit is unaffected by the closure of the Safeguard fund
Administrative Expenses	£43,602k	£28,277k	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 activity, as the Group is building a next generation bank which includes the costs associated with the acquisition of its banking licence
Total Equity	£48,933k	£16,295k	Total Equity is comprised of share capital, reserves and accumulated losses. During the year £50m of additional equity was raised which more than offset the loss for the year

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

## Financial Performance

The 2018 results for the Group show continued capital investment, with £48.6m of share capital and share premium (after capital raise costs) subscribed for during 2018. This has allowed the Group to continue to invest in people, technology, grow its auto loan portfolio as it prepares to launch a next generation digital Bank and continue to operate a successful P2P platform. As a result of this investment administrative expenses increased 54%. Additionally, revenue decreased £5.4m compared to 2017, this reflects the impact of closing the Safeguard product to new business in December 2017, and for which there is a corresponding reduction in Cost of Sales, to keep Gross profit stable at £34m.

## Plans for the future

The Group's key priorities for 2019 will be the continued build and launch of its new products and services for the Bank, and completion of the capital raise required to enable the PRA and FCA to lift the remaining restrictions on Zopa Bank Limited's banking licence.

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

## Business environment

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

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

## Principal risks and uncertainties

Achieving regulatory approval to launch a bank, including raising the additional equity capital required for this, remains a key principal risk.

The other principal risks and uncertainties that the Group faces include consumer credit risk, operational risk specifically information security, financial crime, service disruption and conduct risk.

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

- Having a culture that puts the customer first and seeks to provide them with better value, better service and thus better outcomes;
- Strengthening our systems infrastructure to ensure it can recover quickly and continue operating in the event of disruption;
- Attracting the best talent possible;

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

- Continually reviewing product performance, service levels and macro-economic environment;
- Creating and maintaining appropriate processes and controls for robust governance while maintaining agility to react to adverse changes; and
- Maintaining close engagement in public policy formulation with respect to the financial sector.

Details of the Group's management of financial risks are included in Note 3.

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

On behalf of the Board,



Jaidev Janardana  
**Director**  
20<sup>th</sup> June 2019

## Directors' report for the year ended 31 December 2018

The Directors present their annual report and the audited financial statements of the Group and Company for the year ended 31 December 2018. Details of future developments are included in 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	
Charles Birnbaum	
Christine Farnish	(appointed 01 April 2018)
Richard Goulding	
Peter Herbert	(appointed 22 February 2018)
Jaidev Janardana	
Greg Jackson	(resigned 18 January 2018)
Tim Levene	
Gordon McCallum	(appointed 14 February 2019)
Nigel Morris	
Phillip Riese	(resigned 13 November 2018)
James Van Den Bergh	(resigned 22 February 2018)
Kapil Wadhawan	

Giles Andrews held the post of chairperson during the year and 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 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. The Group's forecasts and projections show that it will be able to operate at adequate levels of both liquidity and capital for the foreseeable future. The Group is currently in the process of a capital raise to secure the funding required to fully capitalise the Bank. There are positive indications that the capital raise will be completed successfully; however, even in the event that the capital raise is not successful, the Group will still have the financial resources to continue as a going concern for the foreseeable future.

### Employee involvement

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

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

### **Donations**

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

### **Disabled employees**

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

### **Management of financial risk**

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

### **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 the company financial statements. 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 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.

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

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.

### **Statement of disclosure of information to auditors**

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

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

### **Directors' 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 13 to 54 were approved by the Board of Directors on 14<sup>th</sup> June 2019 and signed on its behalf by

  
Jaidev Jahardana  
**Director**  
20<sup>th</sup> June 2019

# Independent auditors' report to the members of Zopa Group Limited

## Report on the audit of the group 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 2018 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 Financial Statements for the year ended 31 December 2018 (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 December 2018; the consolidated statement of comprehensive income, 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 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.

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

## Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the 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.

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

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

## Reporting on other information

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

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

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

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

### *Strategic Report and Directors' report*

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

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

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 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they

determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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](http://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 (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
20<sup>th</sup> June 2019

## Consolidated statement of comprehensive income for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Revenue	4	38,550	43,980
Cost of sales		<u>(4,409)</u>	<u>(10,346)</u>
<b>Gross profit</b>		<b>34,141</b>	<b>33,634</b>
Distribution expenses		(8,813)	(10,746)
Administrative expenses	5	<u>(43,602)</u>	<u>(28,277)</u>
<b>Operating loss</b>	6	<b>(18,274)</b>	<b>(5,389)</b>
Other interest receivable and similar income	7	49	16
Credit impairment losses		<u>(70)</u>	<u>(163)</u>
<b>Loss before taxation</b>		<b>(18,295)</b>	<b>(5,536)</b>
Taxation	10	<u>434</u>	<u>1,278</u>
<b>Loss for the year</b>		<b>(17,861)</b>	<b>(4,258)</b>
Other comprehensive income		<u>34</u>	<u>35</u>
<b>Total comprehensive expense</b>		<b>(17,827)</b>	<b>(4,223)</b>

The notes on pages 20-54 form part of these financial statements.

## Consolidated statement of financial position as at 31 December 2018

	Note	2018 £000	2017 £000
<b>Non-current assets</b>			
Property, plant and equipment	11	3,437	3,006
Intangible assets	12	8,006	4,381
Loans and receivables	14	9,370	2,783
		<b>20,813</b>	<b>10,170</b>
<b>Current assets</b>			
Trade, loans and other receivables	14	4,100	3,489
Current tax asset		1,109	1,111
Debt Securities		18,725	-
Cash at bank		12,644	9,032
		<b>36,578</b>	<b>13,632</b>
<b>Total assets</b>		<b>57,391</b>	<b>23,802</b>
<b>Current liabilities</b>			
Trade and other payables	15	(8,488)	(7,507)
<b>Net current assets</b>		<b>28,090</b>	<b>6,125</b>
<b>Net assets</b>		<b>48,903</b>	<b>16,295</b>
<b>Equity</b>			
Share capital	17	380	302
Share premium		56,342	7,853
Other reserves	18	59,656	57,664
Accumulated losses		(67,475)	(49,524)
<b>Total equity</b>		<b>48,903</b>	<b>16,295</b>

The notes on pages 20-54 form part of these financial statements.

The financial statements of Zopa Group Limited (Registered number 10624955) were approved by the Directors on 14<sup>th</sup> June 2019 and were signed on its behalf by:

  
 Jaidev Janardana  
 Director  
 20<sup>th</sup> June 2019

## Company statement of financial position as at 31 December 2018

	Note	2018 £000	2017 £000
<b>Non-current assets</b>			
Investments in subsidiaries	13	103,400	62,282
Loans and receivables	14	2,000	-
		<b>105,400</b>	<b>62,282</b>
<b>Current assets</b>			
Trade and other receivables	14	245	6,781
Debt Securities		8,706	-
Cash at bank		6,288	894
		<b>15,239</b>	<b>7,675</b>
<b>Total assets</b>		<b>120,639</b>	<b>69,957</b>
<b>Current liabilities</b>			
Trade and other payables	15	(1,282)	(181)
<b>Net current assets</b>		<b>13,957</b>	<b>7,494</b>
<b>Net assets</b>		<b>119,357</b>	<b>69,776</b>
<b>Equity</b>			
Share capital	17	380	302
Share premium		56,342	7,853
Other reserves	18	63,949	61,991
Accumulated losses		(1,314)	(370)
<b>Total equity</b>		<b>119,357</b>	<b>69,776</b>

The Company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the Company profit and loss account. The loss after tax of the Company for the year ended 31 December 2018 was £944,000.

The notes on pages 20-54 form part of these financial statements.

The financial statements of Zopa Group Limited (Registered number 10624955) were approved by the Directors on 14<sup>th</sup> June 2019 and were signed on its behalf by:



Jaidev Janardana  
Director

20<sup>th</sup> June 2019

## Consolidated statement of changes in equity for the year ended 31 December 2018

	Note	Share capital £000	Share premium £000	Other reserves £000	Accumulated losses £000	Total equity £000
<b>Balance as at 1 January 2017</b>		291	-	56,380	(45,266)	11,405
Exchange rate differences		-	-	35	-	35
Loss for the period		-	-	-	(4,258)	(4,258)
<b>Total comprehensive expense</b>		-	-	35	(4,258)	(4,223)
<b>Transactions with owners</b>						
Issue of share capital		11	7,989	-	-	8,000
Cost of Capital		-	(160)	-	-	(160)
Exercise of options		-	24	5	-	29
Share based payment charge	22	-	-	1,244	-	1,244
<b>Total transactions with owners</b>		<b>11</b>	<b>7,853</b>	<b>1,249</b>	-	<b>9,113</b>
<b>Balance as at 31 December 2017</b>		<b>302</b>	<b>7,853</b>	<b>57,664</b>	<b>(49,524)</b>	<b>16,295</b>
Changes on initial application of new accounting standards		-	-	-	(90)	(90)
<b>Balance as at 1 January 2018</b>		<b>302</b>	<b>7,853</b>	<b>57,664</b>	<b>(49,614)</b>	<b>16,205</b>
Exchange rate differences		-	-	34	-	34
Loss for the year		-	-	-	(17,861)	(17,861)
<b>Total comprehensive expense</b>		-	-	34	(17,861)	(17,827)
<b>Transactions with owners</b>						
Issue of share capital		74	49,464	-	-	49,538
Cost of Capital		-	(1,225)	-	-	(1,225)
Exercise of options		4	250	-	-	254
Share based payment charge	22	-	-	1,958	-	1,958
<b>Total transactions with owners</b>		<b>78</b>	<b>48,489</b>	<b>1,958</b>	-	<b>50,525</b>
<b>Balance as at 31 December 2018</b>		<b>380</b>	<b>56,342</b>	<b>59,656</b>	<b>(67,475)</b>	<b>48,903</b>

Other reserves consist of a merger reserve, a currency translation reserve and a share-based payment reserve. Please see note 18 for details. The notes on pages 20-54 form part of these financial statements.

## Company statement of changes in equity for the year ended 31 December 2018

	Share capital	Share premium	Other reserves	Accumulated losses	Total equity
	£000	£000	£000	£000	£000
<b>Balance as at 17 February 2017</b>	-	-	-	-	-
Loss for the period	-	-	-	(370)	(370)
<b>Total comprehensive expense</b>	-	-	-	<b>(370)</b>	<b>(370)</b>
<b>Transactions with owners</b>					
Corporate reorganisation	291	-	61,242	-	61,533
Issue of new shares	11	7,989	-	-	8,000
Share issue costs	-	(160)	-	-	(160)
Exercise of options	-	24	-	-	24
Share based payment charge	22	-	749	-	749
<b>Total transactions with owners</b>	<b>302</b>	<b>7,853</b>	<b>61,991</b>	-	<b>70,146</b>
<b>Balance as at 31 December 2017 and 1 January 2018</b>	<b>302</b>	<b>7,853</b>	<b>61,991</b>	<b>(370)</b>	<b>69,776</b>
Loss for the period	-	-	-	(944)	(944)
<b>Total comprehensive expense</b>	-	-	-	<b>(944)</b>	<b>(944)</b>
<b>Transactions with owners</b>					
Issue of new shares	74	49,464	-	-	49,538
Share issue costs	-	(1,225)	-	-	(1,225)
Exercise of options	4	250	-	-	254
Share based payment charge	22	-	1,958	-	1,958
<b>Total transactions with owners</b>	<b>78</b>	<b>48,489</b>	<b>1,958</b>	-	<b>50,525</b>
<b>Balance as at 31 December 2018</b>	<b>380</b>	<b>56,342</b>	<b>63,949</b>	<b>(1,314)</b>	<b>119,357</b>

Other reserves consist of a merger reserve and share based payment reserve. Please see note 18 for details. The notes on pages 20-54 form part of these financial statements.

## Consolidated statement of cash flows for the year ended 31 December 2018

	Note	2018 £000	2017 £000
<b>Cash flows from operating activities</b>			
Cash used in operations	16	(12,604)	(3,096)
Increase in loans and receivables		(7,831)	(1,893)
Repayment of loans and receivables		1,082	319
Income taxes received		438	167
<b>Net cash used in operating activities</b>		<b>(18,915)</b>	<b>(4,503)</b>
<b>Cash flows from investing activities</b>			
Additions to property, plant and equipment	11	(1,836)	(1,116)
Additions to intangible assets	12	(5,528)	(3,132)
Purchase of debt securities		(18,725)	-
Interest received		49	16
<b>Net cash used in investing activities</b>		<b>(26,040)</b>	<b>(4,232)</b>
<b>Cash flows from financing activities</b>			
Issue of new shares	17	48,567	7,869
<b>Net increase/(decrease) in cash at bank</b>		<b>3,612</b>	<b>(866)</b>
Cash at bank at 1 January		9,032	9,898
<b>Cash at bank at 31 December</b>		<b>12,644</b>	<b>9,032</b>

The notes on pages 20-54 form part of these financial statements.

## Company statement of cash flows for the year ended 31 December 2018

		<b>Year ended 31 December 2018 £000</b>	Period from 17 February 2017 to 31 December 2017 £000
	<b>Note</b>		
<b>Cash flows from operating activities</b>			
Cash generated from/(used in) operations	16	6,680	(6,970)
<b>Net cash generated from/ (used in) operating activities</b>		<b>6,680</b>	<b>(6,970)</b>
<b>Cash flows from investing activities</b>			
Investment in subsidiaries		(39,160)	-
Purchase of debt securities		(8,706)	-
Loan provided to other group undertaking		(2,000)	-
Interest received		13	-
<b>Net cash used in investing activities</b>		<b>(49,853)</b>	<b>-</b>
<b>Cash flows from financing activities</b>			
Issue of new shares	17	48,567	7,864
<b>Net increase in cash at bank</b>		<b>5,394</b>	<b>894</b>
Cash at bank at the beginning of the period		894	-
<b>Cash at bank at 31 December</b>		<b>6,288</b>	<b>894</b>

The notes on pages 20-54 form part of these financial statements.

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

## 1 General information

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

## 2 Principal accounting policies

### **Basis of preparation**

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

The financial statements have been prepared under the historical cost convention. The principal accounting policies, which have been consistently applied, are set out below.

By including the Company financial statements together with the Group consolidated financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

### 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. The Group is currently in the process of a capital raise to secure the funding required to fully capitalise the Bank. There are positive indications that the capital raise will be completed successfully however, even in the event that the capital raise is not successful, the Group will still have the financial resources to continue as a going concern for the foreseeable future.

### **New and amended standards adopted by the Group**

#### IFRS 9 Financial Instruments

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

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

### 2 Principal accounting policies (continued)

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

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

Set out below are disclosures relating to the adoption of IFRS 9 on the Group and Company.

#### a. Classification and measurement of financial instruments

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

Group	IAS 39		IFRS 9	
	Measurement category	Carrying amount	Measurement category	Carrying amount
<b>Financial assets</b>		<b>£000</b>		<b>£000</b>
Loans and advances to customers	Amortised cost	1,408	Amortised cost	1,318
Trade and other receivables	Amortised cost	4,865	Amortised cost	4,865
Cash at bank	Amortised cost	9,032	Amortised cost	9,032
<b>Company</b>				
	Measurement category	Carrying amount	Measurement category	Carrying amount
<b>Financial assets</b>		<b>£000</b>		<b>£000</b>
Loans to group undertakings	Amortised cost	6,727	Amortised cost	6,727
Trade and other receivables	Amortised cost	54	Amortised cost	54
Cash at bank	Amortised cost	894	Amortised cost	894

There were no changes to the classification and measurement of financial liabilities.

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

### 2 Principal accounting policies (continued)

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

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

Group	IAS 39 Carrying amount	Remeasurements	IFRS 9 Carrying amount
	£000	£000	£000
<b>Amortised cost</b>			
<b>Loans and advances to customers</b>			
Closing balance under IAS 39	1,408		
Remeasurement: ECL allowance		(90)	
Opening balance under IFRS 9			1,318
<b>Trade and other receivables</b>			
Closing balance under IAS 39 and opening balance under IFRS 9	4,865	-	4,865
<b>Cash at bank</b>			
Closing balance under IAS 39 and opening balance under IFRS 9	9,032	-	9,032

There were no changes to the measurement of financial assets for the Company.

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

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

Group	Impairment allowance under IAS 39	Remeasurement	Impairment allowance under IFRS 9
	£000	£000	£000
Loans and advances to customers	163	90	253

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

## 2 Principal accounting policies (continued)

### IFRS 15 Revenue from contracts with customers

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

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

#### Annual improvements to IFRS 2015-2017 Cycle

The issues addressed in this cycle cover IFRS 3, IFRS 11, IFRS 12 and IAS 23. The amendments are effective for annual periods beginning on or after 1 January 2019. There is not expected to be any financial impact of these standards on the Group or Company.

#### IFRS 16 Leases

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

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

At initial adoption on 1 January 2019, the Group will be required to recognise a lease liability, and a corresponding right of use asset, in respect of leases of property. These amounts will be measured by discounting the future lease payments over the lease term, or earlier if management expect to exit the lease early. The adoption of IFRS 16 is expected to result in the recognition of a lease liability of £9.6m, a related right of use asset of £8.9m and a reduction in other liabilities of £0.5m. This is expected to result in a reduction of £0.2m to equity. Subsequent to the initial adoption, the effect of IFRS 16 on the income statement recognition profile of leases is not expected to be material.

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

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

## 2 Principal accounting policies (continued)

### Revenue

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

The Group recognises revenue 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.

The Group's main types of revenue arise from the principal activity of operating an online marketplace lending platform and represent the commission charged to borrowers and lenders for the use of the on-line lending and borrowing exchange. Revenue from servicing fees is recognised over the term of the loan. The borrower fee is recognised when the borrower accepts the loan.

Revenues from loans and advances to customers are recognised in the income statement on an effective interest rate (EIR) basis. The EIR is the rate that, at the inception of the financial asset or liability, exactly discounts expected future cash payments and receipts over the expected life of the instrument back to the initial carrying amount. When calculating the EIR, the Group estimates cash flows considering all contractual terms of the instrument but does not consider the assets' future credit losses.

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 or liability.

Interest income 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 EIR basis.

### 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 in the income statement as the amount by which the asset's carrying amount exceeds its recoverable amount. See note 13 for additional information.

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

## 2 Principal accounting policies (continued)

### Property, plant and equipment and depreciation

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

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

Office equipment	3-5 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.

### Intangible assets and amortisation

Intangible assets relate to technical 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 life, which does not exceed 3 years. The residual value of intangible assets is assumed to be zero. Impairment reviews are carried out at the end of each reporting period. Assets are stated at cost less accumulated amortisation and any recognised impairment.

Expenditure on research is charged to the statement of comprehensive income in the year in which it is incurred.

The intangible asset recognised relating to the Banking licence represents the development costs incurred in the Banking licence application. Further costs are expected in 2019. These costs consist 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.

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

## 2 Principal accounting policies (continued)

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are classified as held-to-collect. They are initially recognised at fair value and subsequently measured at amortised cost using the EIR method. The amortised cost is the amount advanced less principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the amount advanced and the maturity amount, less impairment provisions for expected credit losses. Loans and receivables mainly comprise loans and advances to banks and customers.

### Impairment

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

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

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

#### **Qualitative Criteria**

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

#### **Backstop**

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

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

## 2 Principal accounting policies (continued)

### 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 more than more than 60 days past due for auto loans, and 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.

#### **Assets leased from third parties**

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

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

#### **Assets leased to customers**

Leases of assets to customers are finance leases as defined by IAS 17. 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.

#### **Cash at bank**

For the purpose of presentation in the statement of cash flows, cash at bank includes cash on hand and deposits held at call with financial institutions.

#### **Debt securities**

The Group and Company hold investment grade and highly liquid UK T-Bills with maximum three months maturity. The business model is solely to hold the assets to collect the contractual cash flows and they are carried at amortised cost.

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

## 2 Principal accounting policies (continued)

### Trade receivables

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

### Trade and other payables

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

### Provisions

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

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

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

### 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 profit or loss. 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 finance 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 Zopa Group Limited's functional and presentation currency.

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

## 2 Principal accounting policies (continued)

### Income tax

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

The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associates operate and generate 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 based on amounts expected to be paid to the tax authorities.

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

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

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

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

The 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.

### Employee benefits

Liabilities for 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.

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

## 2 Principal accounting policies (continued)

### Pension obligations

For defined contribution plans, 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.

### 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.

The fair value of options granted is recognised as an employee benefits expense with a corresponding increase in equity in the Group consolidated financial statements. In the financial statements of the Parent this expense is instead recognised as an investment in subsidiary. 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 Group revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

### Contributed equity

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

### Critical accounting judgements and estimates

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

### 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 were:

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

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

## 2 Principal accounting policies (continued)

### Intangible assets

Intangible assets are recognised only when it is probable that the future economic benefits that are attributable to the asset will flow to the Group. The valuation of certain intangible assets is based on the Group's ability to complete the build and launch the bank in line with management's forecasts. The value of indefinite life intangible assets has been tested for impairment, by comparing the carrying amount against the recoverable amount, determined to be its Value in Use (VIU). Key assumptions used in the calculation of VIU were the following:

- Cash flows were projected based on past experience, actual operating results and the 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.

The VIU of the asset was significantly above its carrying value and no impairment charge was required to be recognised. The Group estimates that reasonably possible changes in the above assumptions are not expected to cause the recoverable amount to reduce below the carrying amount.

The Group did not identify any impairment indicators for the other classes of intangible assets.

### Measurement of the expected credit loss allowance

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

### Impairment of investment in subsidiaries

The value of the Company's investment in subsidiaries has been tested for impairment, by comparing the carrying amount against the recoverable amount, determined to be the fair value less costs to sell. The fair value less costs to sell was significantly greater than the carrying amount therefore no impairment charge was recognised.

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

### 3 Management of financial risks

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

#### Foreign exchange risk

Foreign exchange risk arises from the Group entering into transactions denominated in a currency other than its functional currency. These transactions typically relate to trade payables due within 30 days, due to the limited exposure to this risk hedging is not used. The Group does not have a material exposure to foreign exchange risk.

#### 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 managed by ensuring that there is always sufficient liquidity to meet liabilities when due both under normal and stressed conditions. The liquidity position is monitored on an ongoing basis.

#### Liquidity Buffer

The components of the Group's liquidity buffer are shown below:

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Unencumbered cash and bank balances	12,644	9,032
UK Treasury bills	18,725	-
<b>Total liquidity buffer</b>	<b>31,369</b>	<b>9,032</b>

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

### 3 Management of financial risks (continued)

The table below presents the contractual residual maturities of the assets and liabilities on the balance sheet as at 31 December 2018:

<b>Group</b>						
<b>Liabilities</b>	<b>Up to 1 month</b>	<b>Up to 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Trade creditors	206	-	-	-	-	206
Other liabilities	6,647	1,458	-	177	-	8,282
<b>Total</b>	<b>6,853</b>	<b>1,458</b>	<b>-</b>	<b>177</b>	<b>-</b>	<b>8,488</b>
<b>Assets</b>	<b>Up to 1 month</b>	<b>Up to 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cash at Bank	12,644	-	-	-	-	12,644
UK Government T-Bills	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
<b>Total</b>	<b>23,090</b>	<b>11,934</b>	<b>1,737</b>	<b>20,630</b>	<b>-</b>	<b>57,391</b>

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.

<b>Group</b>						
<b>Liabilities</b>	<b>Up to 1 month</b>	<b>Up to 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Trade creditors	206	-	-	-	-	206
Other liabilities	6,647	1,458	-	177	-	8,282
<b>Total</b>	<b>6,853</b>	<b>1,458</b>	<b>-</b>	<b>177</b>	<b>-</b>	<b>8,488</b>

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

### 3 Management of financial risks (continued)

#### Credit Risk

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

Counterparty risk arises in relation to acquired securities or cash deposits placed with other financial institutions as part of the treasury portfolio of assets. Securities held are highly liquid assets of sovereign T-Bills and Money market funds, denominated in Pound Sterling and their credit rating is AA- and above. For cash at bank exposures related to the Bank and the Parent, 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.

<b>Group</b>	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Cash at bank	12,644	9,032
Treasury bills	18,725	-
Loans and advances to customers	7,960	1,571
Other financial assets	5,836	4,864
<b>Gross credit risk exposure</b>	<b>45,165</b>	<b>15,467</b>
Less: allowance for credit losses	(323)	(253)
<b>Net credit risk exposure</b>	<b>44,842</b>	<b>15,214</b>
<b>Company</b>	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Cash at bank	6,288	894
Treasury bills	8,706	-
Loans to Group undertakings	2,149	6,727
Other financial assets	96	54
<b>Gross and net credit risk exposure</b>	<b>17,239</b>	<b>7,675</b>

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, automobile, which is subject to the hire purchase agreement.

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

### 3 Management of financial risks (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.

<b>ECL allowance</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Loss allowance at 1 January 2018</b>	<b>50</b>	<b>108</b>	<b>95</b>	<b>253</b>
<i>Changes reflected in profit and loss</i>				
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)
<b>Net profit &amp; loss charge during the period</b>	<b>2</b>	<b>53</b>	<b>15</b>	<b>70</b>
<i>Other movements with no impact on profit or loss</i>				
Transfer from Stage 2 to Stage 3	-	(97)	97	-
<b>Loss allowance at 31 December 2018</b>	<b>52</b>	<b>64</b>	<b>207</b>	<b>323</b>

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.

<b>Gross Loans</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Gross carrying amount at 1 January 2018</b>	<b>1,174</b>	<b>285</b>	<b>112</b>	<b>1,571</b>
New financial asset originations/purchases	7,991	-	-	<b>7,992</b>
Repayments/derecognition of financial assets	(1,495)	(89)	(20)	<b>(1,604)</b>
Transfer from Stage 1 to Stage 2	(730)	739	-	<b>9</b>
Transfer from Stage 2 to Stage 1	327	(334)	-	<b>(7)</b>
Transfer from Stage 2 to Stage 3	-	(163)	163	-
<b>Gross carrying amount at 31 December 2018</b>	<b>7,267</b>	<b>438</b>	<b>255</b>	<b>7,960</b>

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

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

## 3 Management of financial risks (continued)

### Economic Scenarios

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

The key macroeconomic indicators identified as drivers for the performance of the 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 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 two alternative scenarios: a more optimistic scenario (Upside, with 20% probability) and more pessimistic one (Downside, with 20% probability). The Base scenario incorporates an assumption that credit conditions will worsen over a 5-year horizon, while the Upside scenario considers credit conditions will remain stable over this period. The Downside scenario envisages a more severe worsening than what is expected in the Base scenario. The calculation of impairment provisions reflects the probability-weighted outputs from the three scenarios.

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

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

- **Base case scenario:** central forecast assumes economic growth remains relatively subdued at around 1.5% in 2019. Unemployment is assumed to remain near 4% in the near term and then rise gradually to 4.6% over the medium term. The Bank of England gradually raises interest rates to ensure inflation remains near the 2% target. This scenario assumes no significant disruption in the process of the UK leaving the EU, where both parties manage to agree on a deal and economic ties remain relatively close.
- **Upside scenario:** assumes that the UK's future relationship with the EU is decided with the clarity required to revive business investment. This could lead to overall economic conditions stabilising, enabling the labour market to sustain the historically low unemployment rates observed in 2018 throughout the medium term. The tight labour market would enable continued gains in real wages, leading to an increase in household income. Positive consumer sentiment would also lead households to take on more debt, however the debt to income ratio would remain stable as debt growth would be offset by gains in household income.

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

### 3 Management of financial risks (continued)

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

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

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

#### Sensitivity analysis

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

#### Credit risk within treasury operations

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 liquidity buffer. At 31 December 2018 all treasury assets were in Stage 1 and the ECL was insignificant. The table below sets out information about the credit quality of treasury financial assets:

	<b>2018</b>
	<b>£000</b>
<b>Cash at bank</b>	
- Rated A+ to A-	11,681
- Unrated	963
<b>High quality liquid assets included in the liquidity buffer</b>	
- Rated AAA	18,725
	<b>31,369</b>

#### **Market risk**

Market risk is the risk of a reduction in earnings, value or reserves caused by changes in the prices of financial instruments. The Group's market risk consists primarily of exposure to changes in interest rates. Interest rate risk is the risk that the net value of, or net income arising

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

### 3 Management of financial risks (continued)

from, the firm's assets and liabilities is impacted as a result of changes to interest rates. Financial assets are limited to fixed interest rated income from loans and advances to customers, UK Government T-Bills and Money Market Funds (MMF) and cash at Bank. The Group did not have any material retail deposits (a small amount for bank testing) as at 31 December 2018.

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

	<b>2018</b>
	<b>£000</b>
2% shift up of the yield curve	(374)
2% shift down of the yield curve	397

#### Capital risk

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 the Board, with a focus on the amount of regulatory capital needed. This is especially important as the Group 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. The Group has no external borrowings.

### 4 Revenue

Revenue derives materially from the principal activity of operating an online marketplace lending platform and interest income on loans and advances to customers. Revenues arise wholly in the United Kingdom.

	<b>2018</b>	2017
<b>Group</b>	<b>£000</b>	£000
Online marketplace platform	<b>38,214</b>	43,980
Interest income	<b>331</b>	-
Other	<b>5</b>	-
	<b>38,550</b>	43,980

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

### 5 Administrative expenses

<b>Group</b>	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Staff costs	(25,384)	(16,635)
Information Technology	(5,100)	(2,920)
Legal and Professional	(3,667)	(1,896)
Depreciation and amortisation	(3,308)	(1,659)
Office	(2,988)	(2,904)
Other	(3,155)	(2,263)
<b>Total administrative expenses</b>	<b>(43,602)</b>	<b>(28,277)</b>

### 6 Operating loss

Operating loss is stated after charging:

<b>Group</b>	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
<b>Services provided by the company's auditors:</b>		
Fees payable for the audit of the company and consolidated financial statements	38	24
Fees payable for the audit of the company's subsidiaries	155	59
Fees payable for audit related assurance services	66	78
Fees payable for taxation services	8	5
Fees payable for assurance services	88	104
Amortisation of intangible assets	1,903	878
Depreciation of owned property, plant and equipment	1,405	781
Operating lease payments	2,021	1,744
<b>Company</b>	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Fees payable for the audit of the Company	38	24

### 7 Other interest receivable and similar income

<b>Group</b>	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Interest receivable on bank deposits	49	16

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

### 8 Directors' emoluments

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

<b>Group</b>	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Remuneration paid to Directors in respect of qualifying services	864	741
Share-based compensation arrangements	213	383
	<b>1,077</b>	<b>1,124</b>
<b>Company</b>	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Remuneration paid to Directors in respect of qualifying services	<b>41</b>	<b>167</b>

The Company's highest paid Director's emoluments in 2018 were £41,000 (2017: £55,000). The highest paid Director did not exercise any share options during the period.

### 9 Employee information

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

<b>By activity:</b>	<b>2018</b>	<b>2017</b>
	<b>Number</b>	<b>Number</b>
Loan operations and servicing staff	202	80
Administration	167	187
	<b>369</b>	<b>267</b>

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

<b>Staff costs</b>	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Wages and salaries	20,308	13,662
Social security costs	2,580	1,548
Other Pension costs	538	181
Share based payments	1,958	1,244
	<b>25,384</b>	<b>16,635</b>

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

### 10 Taxation

<b>Group</b>	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
<b>UK taxation</b>		
UK Corporation tax	(402)	-
Foreign tax suffered	(3)	(64)
Other taxes - R&D credit	839	1,342
<b>Total tax credit</b>	<b>434</b>	<b>1,278</b>
	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Loss before taxation	<u>(18,295)</u>	<u>(5,536)</u>
Loss before taxation multiplied by the UK standard corporation tax of 19.00% (2017: 19.25%)	(3,476)	(1,066)
Expenses not deductible for tax purposes	748	116
Loans to participators charge	402	-
Losses for which no deferred tax asset is recognised	2,438	1,015
Tax rate changes	293	-
R&D tax credit	(839)	(1,343)
<b>Total tax credit</b>	<b>(434)</b>	<b>(1,278)</b>
	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Deferred tax asset	<b>Unrecognised</b>	Unrecognised
Origination and reversal of temporary differences	280	57
Tax losses available in future years	8,126	6,619
<b>Total</b>	<b>8,406</b>	<b>6,676</b>

The deferred tax assets are not recognised as of 31 December 2018 and will be recognised at such time as it becomes more likely than not that the Group will generate future taxable profits sufficient to utilise them.

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 applicable foreign tax rates and reflected in these statements.

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

### 11 Property, plant and equipment

Group	Office equipment £000	Fixtures and fittings £000	Total £000
<b>Cost</b>			
At 1 January 2017	1,455	819	2,274
Additions	2,246	183	2,429
Disposals	(96)	-	(96)
	<hr/>	<hr/>	<hr/>
At 31 December 2017	3,605	1,002	4,607
Additions	1,455	381	1,836
	<hr/>	<hr/>	<hr/>
At 31 December 2018	5,060	1,383	6,443
<b>Accumulated depreciation</b>			
At 1 January 2017	739	177	916
Charge for the financial year	499	282	781
Charge for disposals	(96)	-	(96)
	<hr/>	<hr/>	<hr/>
At 31 December 2017	1,142	459	1,601
Charge for the financial year	1,022	383	1,405
	<hr/>	<hr/>	<hr/>
At 31 December 2018	2,164	842	3,006
<b>Net book value</b>			
31 December 2018	<u>2,896</u>	<u>541</u>	<u>3,437</u>
31 December 2017	<u>2,463</u>	<u>543</u>	<u>3,006</u>

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

### 12 Intangible Assets

Group	Purchased £000	Internally generated £000	Banking Licence £000	Total £000
<b>Cost</b>				
At 1 January 2017	185	1,172	-	<b>1,357</b>
Additions	<u>461</u>	<u>2,666</u>	<u>914</u>	<u><b>4,041</b></u>
At 31 December 2017	646	3,838	914	<b>5,398</b>
Additions	<u>47</u>	<u>4,709</u>	<u>772</u>	<u><b>5,528</b></u>
At 31 December 2018	693	8,547	1,686	<b>10,926</b>
<b>Accumulated amortisation</b>				
At 1 January 2017	18	121	-	<b>139</b>
Charge for the financial year	<u>163</u>	<u>715</u>	<u>-</u>	<u><b>878</b></u>
At 31 December 2017	181	836	-	<b>1,017</b>
Charge for the financial year	<u>224</u>	<u>1,679</u>	<u>-</u>	<u><b>1,903</b></u>
At 31 December 2018	405	2,515	-	<b>2,920</b>
<b>Net book value</b>				
31 December 2018	<u>288</u>	<u>6,032</u>	<u>1,686</u>	<u><b>8,006</b></u>
31 December 2017	<u>465</u>	<u>3,002</u>	<u>914</u>	<u><b>4,381</b></u>

The Banking Licence is deemed to have an indefinite useful life and therefore no amortisation is charged. Other intangible assets relate to software and databases both purchased and internally generated. Amortisation is recognised within administrative expenses in the Consolidated Statement of Comprehensive Income. Intangible assets are tested for impairment at least annually.

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

### 13 Investments in subsidiaries

#### Company

<b>Investment in Subsidiary</b>	<b>£000</b>
<b>Balance as at 17 February 2017</b>	-
Share Purchase	-
Corporate reorganisation	61,533
Capital contribution for share based payments	749
<b>Balance as at 31 December 2017</b>	<b>62,282</b>
Share purchase	39,160
Capital contribution for share based payments	1,958
<b>Balance as at 31 December 2018</b>	<b>103,400</b>

Details of the Company's subsidiaries at 31 December 2018 are as follows:

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

The registered office for all subsidiary undertakings is 1<sup>st</sup> 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.

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

### 14 Receivables

<b>Group</b>		
<b>Loans and receivables - non-current</b>	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Rental deposits	1,561	1,250
Loans and advances to customers	7,598	1,383
Prepayments	191	130
Other debtors	20	20
	<b>9,370</b>	<b>2,783</b>
<b>Trade, loans and other receivables - current</b>		
	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Trade debtors	37	196
Other debtors	654	863
Loans and advances to customers	40	25
Season ticket loans	47	43
Prepayments	2,562	1,667
Accrued income	760	695
	<b>4,100</b>	<b>3,489</b>

As disclosed in note 2, loans and receivables represent non-derivative financial assets measured at amortised cost.

<b>Company</b>		
<b>Loans and receivables - non-current</b>	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Amounts due from group undertakings	<b>2,000</b>	-
<b>Current trade and other receivables</b>		
	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Amounts due from group undertakings	149	6,727
Prepayments	96	54
	<b>245</b>	<b>6,781</b>

Amounts due from group undertakings are unsecured, interest is payable at the Bank of England base rate plus 2% and are repayable on 30 November 2023.

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

### 14 Receivables (continued)

#### Finance lease receivables

Loans and advances to customers include the following finance leases where the Group is the lessor:

<b>Gross investment in finance leases, receivable:</b>	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Between one and five years	7,146	234
Unearned finance income	(50)	-
Net investment in finance leases	<u><b>7,096</b></u>	<u><b>234</b></u>
<b>Net investment in finance lease, receivable:</b>		
Between one and five years	<u><b>7,096</b></u>	<u><b>234</b></u>

The Group enters into finance lease, hire purchase, arrangements with customers in the automobile sector.

### 15 Trade and other payables

<b>Group</b>	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Trade creditors	206	2,513
Other taxation and social security	793	1,028
Other creditors	1,200	427
Accruals and deferred income	6,289	3,539
	<u><b>8,488</b></u>	<u><b>7,507</b></u>

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

<b>Company</b>	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Trade creditors	2	-
Amounts owed to group undertakings	62	-
Current tax liability	402	-
Other creditors	656	78
Accruals	160	103
	<u><b>1,282</b></u>	<u><b>181</b></u>

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

### 16 Cash generated from/ (used in) operations

#### Group

	<b>2018</b>	2017
	<b>£000</b>	£000
Loss before taxation	<b>(18,295)</b>	(5,536)
Adjustments for:		
Depreciation of property, plant and equipment	1,405	781
Interest received	(49)	(16)
Share-based payment charge	1,958	1,243
Amortisation of intangible assets	1,903	878
Exchange rate differences	34	35
Loss allowance	70	163
Changes in working capital:		
Movement in trade and other receivables	(611)	(1,597)
Movement in trade and other payables	981	953
Cash used in operations	<u><b>(12,604)</b></u>	<u>(3,096)</u>

#### Company

	<b>2018</b>	2017
	<b>£000</b>	£000
Loss before taxation	(542)	(370)
Adjustments for:		
Interest received	(13)	-
Changes in working capital:		
Movement in trade and other receivables	6,536	(6,781)
Movement in trade and other payables	699	181
Cash generated from/(used in) operations	<u><b>6,680</b></u>	<u>(6,970)</u>

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

### 17 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. Preferred shares include all Series 1, 2, 2B, 2C & 3 preferred shares.

Group	Ordinary Shares	Ordinary A	Ordinary B	Series 1 & 2 Preferred Shares	Series 3 Preferred Shares	Total Shares
Number of shares						
Balance as at 1 January 2017	10,479,559	835,000	-	13,736,449	4,089,251	29,140,259
Issue of share capital	1,078,412	-	-	-	-	1,078,412
<b>Balance at 31 December 2017 and 1 January 2018</b>	<b>11,557,971</b>	<b>835,000</b>	<b>-</b>	<b>13,736,449</b>	<b>4,089,251</b>	<b>30,218,671</b>
Issue of share capital	7,812,649	-	13,736,449	-	-	21,549,098
<b>Balance at 31 December 2018</b>	<b>19,370,620</b>	<b>835,000</b>	<b>13,736,449</b>	<b>13,736,449</b>	<b>4,089,251</b>	<b>51,767,769</b>
Share Capital	Ordinary Shares	Ordinary A	Ordinary B	Series 1 & 2 Preferred Shares	Series 3 Preferred Shares	Total Shares
	£000	£000	£000	£000	£000	£000
Balance as at 1 January 2017	105	8	-	137	41	291
Issue of share capital	11	-	-	-	-	11
<b>Balance at 31 December 2017 and 1 January 2018</b>	<b>116</b>	<b>8</b>	<b>-</b>	<b>137</b>	<b>41</b>	<b>302</b>
Sub-division of shares	-	-	-	(69)	-	(69)
Issue of share capital	78	-	69	-	-	147
<b>Balance at 31 December 2018</b>	<b>194</b>	<b>8</b>	<b>69</b>	<b>68</b>	<b>41</b>	<b>380</b>

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

### 17 Share capital (continued)

Company	Ordinary Shares	Ordinary A	Ordinary B	Series 1 & 2 Preferred Shares	Series 3 preferred Shares	Total Shares
Number of shares						
Balance as at 17 February 2017	-	-	-	-	-	-
Formation	10,000	-	-	-	-	10,000
Corporate Reorganisation	10,469,559	835,000	-	13,736,449	4,089,251	29,130,259
Issue of share capital	1,078,412	-	-	-	-	1,078,412
<b>Balance at 31 December 2017 and 1 January 2018</b>	<b>11,557,971</b>	<b>835,000</b>	<b>-</b>	<b>13,736,449</b>	<b>4,089,251</b>	<b>30,218,671</b>
Issue of share capital	7,812,649	-	13,736,449	-	-	21,549,098
<b>Balance at 31 December 2018</b>	<b>19,370,620</b>	<b>835,000</b>	<b>13,736,449</b>	<b>13,736,449</b>	<b>4,089,251</b>	<b>51,767,769</b>
Share Capital	Ordinary Shares £000	Ordinary A £000	Ordinary B £000	Series 1 & 2 Preferred Shares £000	Series 3 Preferred Shares £000	Total Shares £000
Balance as at 17 February 2017	-	-	-	-	-	-
Corporate Reorganisation	105	8	-	137	41	291
Issue of share capital	11	-	-	-	-	11
<b>Balance at 31 December 2017 and 1 January 2018</b>	<b>116</b>	<b>8</b>	<b>-</b>	<b>137</b>	<b>41</b>	<b>302</b>
Sub-division of shares	-	-	-	(69)	-	(69)
Issue of share capital	78	-	69	-	-	147
<b>Balance at 31 December 2018</b>	<b>194</b>	<b>8</b>	<b>69</b>	<b>68</b>	<b>41</b>	<b>380</b>

#### Corporate Reorganisation

Zopa Group Limited was incorporated on 17 February 2017. On 10 May 2017, Zopa Group Limited replaced Zopa Holdings Inc as the ultimate parent of the Group, via a corporate reorganisation. As a result of this corporate reorganisation 29,130,259 shares were issued at a nominal value of £0.01.

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

## 17 Share capital (continued)

### 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) Series 1 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)

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

### 18 Other reserves

Group	Share Based Payment Reserve £000	Merger reserve £000	Currency translation reserve £000	Total other reserves £000
<b>Balance as at 1 January 2017</b>	3,974	51,458	948	<b>56,380</b>
Exchange rate differences	-	-	35	<b>35</b>
Exercise of options	-	5	-	<b>5</b>
Share based payment charge	1,244	-	-	<b>1,244</b>
<b>Balance as at 31 December 2017</b>	<b>5,218</b>	<b>51,463</b>	<b>983</b>	<b>57,664</b>
Exchange rate differences	-	-	34	<b>34</b>
Share based payment charge	1,958	-	-	<b>1,958</b>
<b>Balance as at 31 December 2018</b>	<b>7,176</b>	<b>51,463</b>	<b>1,017</b>	<b>59,656</b>

Company	Share Based Payment Reserve £000	Merger reserve £000	Total other reserves £000
<b>Balance as at 17 February 2017</b>	-	-	-
Corporate reorganisation	-	61,242	<b>61,242</b>
Share based payment charge	749	-	<b>749</b>
<b>Balance as at 31 December 2017</b>	<b>749</b>	<b>61,242</b>	<b>61,991</b>
Share based payment charge	1,958	-	<b>1,958</b>
<b>Balance as at 31 December 2018</b>	<b>2,707</b>	<b>61,242</b>	<b>63,949</b>

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

### 19 Financial commitments

#### Leases

The Group had total commitments under non-cancellable operating leases, payable as follows:

	<b>2018</b>	2017
	<b>£000</b>	£000
<b>Land and buildings</b>		
Under 1 year	1,884	1,492
Between 1 and 5 years	7,039	5,616
Over 5 years	-	1,188
Total	<u><u>8,923</u></u>	<u><u>8,296</u></u>

#### Purchase commitments

The Group had total minimum spend commitments relating to credit checks, payable as follows:

	<b>2018</b>	2017
	<b>£000</b>	£000
<b>Purchase agreements</b>		
Under 1 year	1,071	2,652
Between 1 and 5 years	1,428	2,241
Total	<u><u>2,499</u></u>	<u><u>4,893</u></u>

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

### 20 Company related party transactions

At 31 December 2018 £148,000 is due from Zopa Bank Limited (2017: £716,000) and £62,000 is due from Zopa Limited (2017: £6,001,000). Amounts have been settled in full post year end. Additionally, a £2,000,000 loan is due from Zopa Limited. The amount is still outstanding and due for repayment on 30<sup>th</sup> November 2023. Interest is charged on this loan at the Bank of England base rate plus 2% margin.

### 21 Ultimate parent undertaking and controlling party

In May 2017 Zopa Group Limited acquired 100% of Zopa Holdings Inc. becoming the ultimate parent undertaking. Following this acquisition, the Directors do not consider there to be one single ultimate controlling party.

### 22 Share based payment arrangements

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). Group entities receive services from certain employees as consideration for equity option instruments (share options) of the ultimate parent. These equity option instruments are granted by Zopa Group Limited. The fair value of the employee services received in exchange for the grant of options is expensed each reporting period, based on the Group'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.

	<b>2005 &amp; 2015 Stock Incentive Plans</b>	<b>CSOP</b>	<b>JSOP</b>	<b>Total</b>	<b>Weighted Average Exercise Price</b>
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
Lapsed during 2018	(93,621)	(321,368)	(6,754)	(421,743)	3.6616
<b>Outstanding options at 31 December 2018</b>	<b>2,047,179</b>	<b>1,214,446</b>	<b>701,852</b>	<b>3,963,477</b>	<b>3.1941</b>
Exercisable options at 31 December 2018	1,297,680	178,795	126,823	1,603,298	1.3982

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 period. The significant assumptions used in the Black Scholes model were:

	<b>2018</b>	<b>2017</b>
Expected volatility	35%	35%
Expected life (in years)	10	10
Risk free rate	1.5%	2%

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

### **22 Share based payment arrangements (continued)**

The share-based payment charge in the year was £1,958,000 (2017: £1,244,000).

### **23 Subsequent events**

In February 2019, the Company purchased 8,000,000 ordinary shares in Zopa Bank Limited, for cash consideration of £8m.

In April 2019, the Company purchased 5,000,000 ordinary shares in Zopa Bank Limited, for cash consideration of £5m.