Registered number 05197592

Zopa Limited

Annual report and Financial Statements

for the year ended 31 December 2012

Zopa Limited

Annual report and Financial Statements for the year ended 31 December 2012

Contents

Directors and advisers for the year ended 31 December 2012

Directors
Giles Andrews
Greg Jackson

Company Secretary
Giles Andrews

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

Lawyers
Wilmer Cutler Pickering Hale and Dorr LLP
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10 Noble Street
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Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

Directors' report for the year ended 31 December 2012

Registered number 05197592

The directors present the annual report and the audited financial statements of the company for the year ended 31 December 2012

Principal activities and business review

The principal activity of Zopa Limited is the development and provision of an on-line lending and borrowing exchange

The results of the company show a pre-tax profit of £0 01 million (2011 £0 03 million) The directors do not recommend the payment of a dividend in the current year (2011 £nil)

As at 31 December 2012, the company has net assets of £3 5 million (2011 £0 4 million)

The directors anticipate the entry of new competitors to, and growth of existing competitors in, our sector but are confident we will continue to show strong growth

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
Greg Jackson

Exceptional items

A reduction in the provision made against intercompany balances of £568,502 (2011 £374,129)

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Directors' report for the year ended 31 December 2012 (continued)

Statement of Disclosure of Information to Auditors

In the case of each director in office at the date the directors' report is approved

(a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Independent Auditors

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

This report has been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 relating to small companies

On behalf of the board

Giles Andrews
Director
08 March 2013

Independent auditors' report to the members of Zopa Limited

We have audited the financial statements of Zopa Limited for the year ended 31 December 2012 which comprise the Profit and Loss account, the Balance Sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Standard for Smaller Entities (Effective April 2008) (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities)

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for

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

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Report of the Directors to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

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

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the Directors' Report

Rachel Savage (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
08 March 2013

Profit and loss account
for the year ended 31 December 2012

	Note	2012	2011
		£	£
Turnover	2	**2,973,836**	2,221,029
Cost of sales		**(211,218)**	(164,420)
Gross profit		**2,762,618**	2,056,609
Distribution costs		**(989,187)**	(666,753)
Administrative expenses			
Excluding exceptional item		**(2,336,567)**	(1,739,805)
Exceptional item	4	**568,502**	374,129
Administrative expenses including exceptional item		**(1,768,065)**	(1,365,676)
Operating profit		**5,366**	24,180
Interest receivable and similar income	3	**5,441**	1,983
Profit on ordinary activities before tax		**10,807**	26,163
Tax on profit on ordinary activities	7	**21,678**	-
Profit for the financial year	14	**32,485**	26,163

There are no gains or losses other than the profit shown above and therefore no separate statement of total recognised gains and losses has been presented

Zopa Limited

Balance sheet as at 31 December 2012

	Note	2012	2011
		£	£
Fixed assets			
Tangible assets	8	**32,367**	53,772
		32,367	53,772
Current assets			
Debtors	9	**87,017**	234,396
Cash at bank and in hand		**4,224,260**	520,533
		4,311,277	754,929
Creditors falling due within one year	10	**(850,168)**	(338,683)
Net current assets		**3,461,109**	416,246
Total assets less current liabilities		**3,493,476**	470,018
Provisions for liabilities	11	**(15,483)**	(24,510)
Net assets		**3,477,993**	445,508
Capital and reserves			
Called up share capital	13	**199,824**	199,824
Share premium account	14	**5,815,640**	5,815,640
Capital contribution	14	**11,093,020**	8,093,020
Profit and loss account	14	**(13,630,491)**	(13,662,976)
Total shareholders' funds	15	**3,477,993**	445,508

These financial statements have been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006, 'The small companies and Groups (Accounts and Directors' Report) Regulations 2008', and with the Financial Reporting Standard for Smaller Entities (effective April 2008)

The financial statements, which comprises the profit and loss account, the balance sheet and the related notes were approved by the directors on 08 March 2013 and were signed on its behalf by

Giles Andrews
Director
08 March 2013

Notes to the financial statements for the year ended 31 December 2012

1 Principal accounting policies

These financial statements are prepared on a going concern basis, under the historic cost convention, in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008), the Companies Act 2006 and applicable accounting standards in the United Kingdom The principal accounting policies, which have been consistently applied, are set out below

Going concern

The financial statements have been prepared on a going concern basis, which the Directors believe to be appropriate The Directors have prepared cash flow projections for the company covering a period of at least 12 months from the date of their approval of these financial statements and the Directors consider the company will be able to operate within its available facilities

Exceptional items

Exceptional items are events that fall within the ordinary activities of the Company, but which by virtue of size or incidence, have been separately disclosed in order to improve a reader's understanding of the financial statements These include one-off events or transactions

Tangible fixed assets and depreciation

Tangible fixed assets are stated as historic purchase cost less accumulated depreciation The cost of tangible assets is their purchase cost together with any incidental costs of acquisition

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	3-4 years
Fixtures and fittings	3-4 years

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

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date Deferred tax is measured on a non-discounted basis

Research and development expenditure

Expenditure on research and development is charged to the profit and loss account in the year in which it is incurred

Notes to the financial statements for the year ended 31 December 2012 (continued)

Principal accounting policies (continued)

Turnover

Turnover arises from the principal activity and represents the commission charged to borrowers and lenders for the use of the on-line lending and borrowing exchange Turnover from lender fees is recognised over the term of the loan The fixed borrower fee is recognised when the borrower accepts the loan

Cash flow statement

The company has prepared the financial statements under the Financial Reporting Standard for Smaller Entities (effective April 2008) and as such is not required to prepare a cash flow statement

Operating leases

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term

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 balance sheet date and any differences arising are taken to the profit and loss account

Provisions

Provisions are recognised when a present obligation exists as the result of a past event and it is probable that this will result in an outflow of economic benefit, the size of which can be reliably estimated Provisions are measured on a non-discounted basis

2 Turnover

Turnover and profit before tax derive from the principal activity and wholly arise in the United Kingdom

3 Interest receivable and similar income

	2012	2011
	£	£
Interest receivable on bank deposits	**5,441**	1,983

Notes to the financial statements for the year ended 31 December 2012 (continued)

4 Operating profit

Operating profit is stated after charging/(crediting)

	2012	2011
	£	£
Services provided by the company's auditor:		
Fees payable for audit services	**15,600**	15,600
Fees payable for other services – tax compliance	**5,400**	4,440
Depreciation of owned tangible assets	**34,708**	35,958
Operating lease payments – land and buildings	**87,436**	62,589
Release of provision against intercompany balance	**(568,502**	(374,129)

The exceptional item relates to a release in the provision made in 2007 against the intercompany balances

5 Directors' emoluments

Total emoluments in respect of all directors were

	2012	2011
	£	£
Aggregate emoluments	**148,589**	128,685

No Director (2011 none) accrued any benefits under either money purchase or defined benefit pension schemes

Notes to the financial statements for the year ended 31 December 2012 (continued)

6 Employee information

The average monthly number of persons (including directors) employed by the company during the year was

	2012	2011
	Number	Number
Selling and distribution	**10**	6
Administration	**19**	17
	29	23

Employment costs for all of the above employees, including directors, were

	2012	2011
	£	£
Staff costs		
Wages and salaries	**1,198,383**	904,189
Social security costs	**129,519**	96,152
	1,327,902	1,000,341

7 Tax on profit on ordinary activities

(a) Analysis of tax in the year	**2012**	2011
	£	£
Current tax	-	-
Research and development tax credits received	(21,678)	-
Total Tax	(21,678)	-

(b) Deferred tax asset	**2012**	2011
	£	£
Deferred tax	**Un-provided**	Un-provided
Origination and reversal of timing differences	47,447	42,853
Tax losses available in future years	2,861,593	3,024,573
Total	**2,909,040**	**3,067,426**

Notes to the financial statements
for the year ended 31 December 2012 (continued)

Tax on profit on ordinary activities (continued)

The un-provided deferred tax assets are not recognised as of 31 December 2012 as it is not considered likely that such deferred assets would be realised in the foreseeable future

The Finance Act 2012, which was substantively enacted on 3 July 2012, included legislation reducing the main rate of corporation tax from 25% to 24% from 1 April 2012 and from 24% to 23% from 1 April 2013 Un-provided deferred tax has therefore been calculated at 23% (2011 25%)

In addition to the changes in rates of Corporation tax disclosed above, further changes to the UK Corporation tax system were announced in the Autumn statement 2012 This includes a further reduction to the main rate to reduce the rate to 21% from 1 April 2014 This change had not been substantively enacted at the balance sheet date and, therefore, is not included in these financial statements

8 Tangible assets

	Office equipment	Fixtures and fittings	Total
	£	£	£
Cost			
At 1 January 2012	182,071	11,330	193,401
Additions	10,596	2,707	13,303
At 31 December 2012	**192,667**	**14,037**	**206,704**
Accumulated depreciation			
At 1 January 2012	129,960	9,669	139,629
Charge for the financial year	33,286	1,422	34,708
At 31 December 2012	**163,246**	**11,091**	**174,337**
Net book value			
31 December 2012	**29,421**	**2,946**	**32,367**
31 December 2011	52,111	1,661	53,772

9 Debtors

	2012	2011
	£	£
Other debtors	**21,898**	53,709
Prepayments	**55,975**	24,175
Accrued income	**9,144**	156,512
	87,017	234,396

Notes to the financial statements
for the year ended 31 December 2012 (continued)

10 Creditors: amounts falling due within one year

	2012	2011
	£	£
Trade creditors	**89,152**	49,190
Amounts owed to group companies	**484,028**	10,944
Other taxation and social security	**39,784**	72,795
Other creditors	**193,240**	57,407
Accruals	**43,964**	148,347
	850,168	338,683

The amounts owed to group companies are unsecured, have no fixed date for repayment and are non-interest bearing

11 Provisions for liabilities

	Borrower fraud	Office Dilapidations	Total
	£	£	£
At 1 January 2012	12,510	12,000	24,510
Released to the profit and loss account	(3,163)	(9,000)	(15,163)
Provided in the year	3,136	-	6,136
At 31 December 2012	**12,483**	**3,000**	**15,483**

Notes to the financial statements for the year ended 31 December 2012 (continued)

12 Share based payment arrangements

During the year ended 31 December 2012, Zopa Limited had a single share based payment arrangement with 10 employees for shares of Zopa Holdings Inc, the ultimate parent undertaking In accordance with the FRSSE, no share based payments charge has been recognised in the financial statements The details of the arrangement are described below

Arrangement	**Share options granted**
Number of instruments granted	1,826,118
Exercise price	£0 0466
Share price at the date of grant	£0 0466
Vesting conditions	Continuous employment since grant date to exercise date (4 years)
Settlement	Equity shares

During the year no share options were exercised (2011 165,135) The above information applies to options outstanding at the end of the year

13 Called up share capital

	2012	2011
	£	£
Authorised:		
200,000 ordinary shares of £1 each (2011 200,000)	**200,000**	200,000
Allotted and fully paid.		
199,824 ordinary shares of £1 each (2011 199,824)	**199,824**	199,824

14 Reserves

	Share Premium Account	Capital Contribution	Profit and Loss Account
	£	£	£
At 1 January 2012	5,815,640	8,093,020	(13,662,976)
Capital contribution from ultimate parent undertaking	-	3,000,000	-
Profit for the financial year	-	-	32,485
At 31 December 2012	**5,815,640**	**11,093,020**	**(13,630,491)**

Notes to the financial statements
for the year ended 31 December 2012 (continued)

15 Reconciliation of movements in shareholders' funds

	2012	2011
	£	£
Profit/(loss) for the financial year	**32,485**	26,163
Capital contribution from ultimate parent undertaking	**3,000,000**	-
Opening shareholders' funds	**445,508**	419,345
Closing shareholders' funds	**3,477,993**	445,508

16 Financial commitments

The company had annual commitments under non-cancellable operating leases, expiring as follows

	Land and buildings	
	2012	2011
	£	£
Under 1 year	**-**	45,500
Between 2 and 5 years	**96,000**	-
Total	**96,000**	45,500

17 Related party transactions

At 31 December 2012 £236,223 (2011 £804,725), against which there is a provision of £236,223 (2011 £804,725), is due from a fellow group company, Zopa Incorporated

At 31 December 2012 £484,028 is due to the parent company, Zopa Holdings Inc (2011 £10,944)

The provisions were created due to the winding up of Zopa Incorporated which is now dormant, and the increased risk of recoverability of the balances

During the year a capital contribution of £3,000,000 (2011 £nil) was received from the parent company, Zopa Holdings Inc

18 Ultimate parent undertaking and controlling party

Zopa Holdings Inc (incorporated in the U S) continues to hold 100% of the issued capital of Zopa Limited at 31 December 2012 and is therefore regarded as the immediate and ultimate parent undertaking

The Directors do not consider there to be an ultimate controlling party